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Investment in China
Money floods into
a hot economy
Special report, Page 2

US military might
How a sole superpower
aims to keep its edge
Page 13

Donald Brash
New Zealand's apostle
of low-inflation
Interview, Page 30

Tunisia
Reform proves as
right as rain
Survey, Section III

FINANCIAL TIMES

Europe's Business Newspaper

MONDAY JUNE 14 1993

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First woman takes office as Turkish prime minister



Former economy minister Tansu Ciller (left), a 47-year-old academic economist, is to be sworn in today as Turkey's first woman prime minister after being elected leader of the conservative True Path party. She is likely to accelerate Turkey's economic convergence with the

European Community. The leadership contest was prompted by Suleyman Demirel's move to the presidency. Page 14; PM must reforge party image, Page 5

Bosnian hospital flattened: Serb rocket fire was reported to have destroyed a temporary hospital, killing more than 50 patients and medical staff in the Bosnian Moslem enclave of Gorazde. In Geneva mediators led by Lord Owen met Bosnian president Izetbegovic in an effort to end the slaughter. Question mark over Nato, Page 30

Rome raises bank powers: Italy's banks are to be allowed to take stakes in industrial companies, in a move to boost privatisation and bail out troubled private companies. Page 14; Italy to sell off financial services group, Page 15

Azerbaijan switches: Geydar Aliyev, former Communist party boss in Azerbaijan, was set to return to power after Isa Gambarov, quit as parliamentary chairman. Page 6

GM warns VW: General Motors of the US has warned Volkswagen of further legal action if it builds an ultra-low-cost car plant in Spain. Page 5

Supreme Court hints: Judge Stephen Breyer of Massachusetts, a likely choice for the US Supreme Court, and his wife failed to make social security payments, an error which ended the hopes of two previous contenders for high positions in the administration. Page 14

Cambodia unrest: Cambodia's assembly, elected in UN-organised polls last month, opens today amid threats of secession from the present communist administration. Page 3

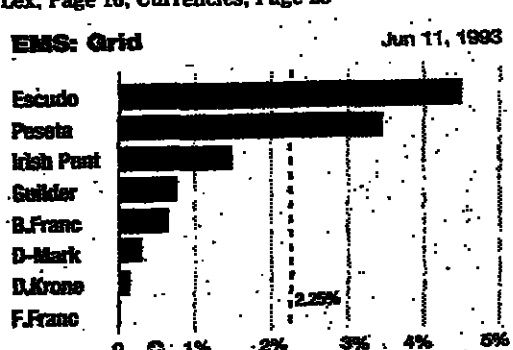
Malawi votes: Voters decide today if Malawi should remain a one-party state under life president Kamuzu Hastings Banda or if opposition parties should be allowed. Page 3

Gatt hopes US business is hoping for a breakthrough in the Gatt world trade talks next month, says Apple Computer chairman and chief executive John Sculley. Page 4

Hard line on Kuriles: Russian president Boris Yeltsin has told Japanese hosts of next month's Group of Seven summit not to expect concessions on Tokyo claims to the Kurile Islands. Page 5

Portugal air crash kills four: A Portuguese jet crashed at Montargil, central Portugal, killing all four on board.

European Monetary System: The Spanish peseta has strengthened its position in the exchange rate mechanism grid following Mr Felipe Gonzalez's general election victory last weekend. Bottom of the grid late last month in the run-up to its formal devaluation, the peseta starts this week still hang over the strength of the D-Mark, which is only 0.32 percentage points above the French franc in bottom position. Some dealers believe the D-Mark could fall to the lowest place. Lex, Page 16; Currencies, Page 25



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Hanson, Anglo-US conglomerate, said it may retract proposals limiting the ability of shareholders to influence annual meetings. Page 16

Libyan envoy killed: Libya's ambassador to Congo Mahmoud Mohamed Saad was shot dead when he failed to stop at a checkpoint.

Egyptian plotter hanged: Sherif Hassan Ahmed, convicted by a military court last December of plotting to overthrow the Egyptian government was hanged in Alexandria.

Race criticism rebuffed: Officials at Aintree, Liverpool, rejected criticisms of the Grand National horse race in April which was abandoned after two false starts, but said starting procedures would be changed for next year's race. Page 6

Soccer: England drew 1-1 with Brazil in the US Cup in Washington.

Turmoil at EBRD over top role for Stern

Calls to postpone decision until after audit report

By Robert Peston, Banking Editor

A GROUP of directors at the European Bank for Reconstruction and Development will this week try to postpone any formal decision to appoint Mr Ernest Stern, the present number two at the World Bank, as the EBRD's new senior vice-president.

Mr Ron Freeman, the bank's first vice-president in charge of merchant banking, who told colleagues on Friday he would probably resign, yesterday decided to stay on and is likely to support the directors' campaign to postpone any decision on the bank's management reorganisation.

Some directors want to delay changes until after an audit into the bank's control of expenditure is completed on July 15. They believe it would be wrong to restructure the management until they can assess who was responsible at the bank for the overspending on its new building, the charter of private aeroplanes and other expenses reported in recent months.

The directors believe a decision to appoint Mr Stern now could make it difficult to remove Mr Jacques Attali, EBRD president, should the audit report criticise him. Mrs Anne Wibble, Sweden's finance minister, who is chairman of the EBRD's governors, last week expressed her support for a delay in the management reorganisation until after the audit report.

The issue threatens to become a serious row between the senior financial officials of the Group of Seven leading industrial countries who own 54 per cent of the bank's shares, known as the G7 deputies, and the non-G7 members of the board of directors. The G7 deputies offered Mr Stern the new appointment without reference to the board of directors.

"The G7 deputies have been duplicitous," said one EBRD director, who believes they have

gone behind the back of the board of directors. "I and my colleagues are appalled by their actions," said another.

The directors oppose Mr Stern's appointment for several other reasons.

They believe it will lead to a radical shift away from the bank's original philosophy of focusing on financing the fledgling private sector in eastern Europe and the former Soviet Union to a more traditional development banking strategy of investing in infrastructure. At a board meeting last Thursday, most directors made it clear to Mr Attali that they would strenuously oppose such a change.

Some directors are also angry after being told that Mr Stern has been offered an after-tax salary of \$250,000, similar to Mr Attali's. Together with pension, health and other benefits, this is equivalent to a pre-tax remuneration package of about \$700,000. "That would cause tremendous pressure to raise other salaries in the bank," complained one director.

Appointments of vice-presidents must be approved by the EBRD's board of directors, which meets today. A group of nine directors will make it clear this week that they will use procedural devices to prevent the appointment of Mr Stern until they have received the report by the bank's audit committee on why the bank spent \$55.5m (\$85m) on fitting out its headquarters and why it has been lax in control of other expenditure.

Mr Stern is understood to have accepted the offer of a position as deputy to Mr Attali. That role has, in effect, been filled by Mr Freeman, who is understood to be disappointed Mr Attali has supported Mr Stern's recruitment. A bank executive said Mr Freeman feels he has given unwavering support to Mr Attali since details of overspending and mismanagement at the bank were disclosed in April.

Beijing predicts investment surge

By Tony Walker in Beijing

FOREIGN investors will sign contracts with Chinese partners worth some US\$80bn in 1993, according to a senior trade official in Beijing.

Mr Lin Kun, deputy director of foreign investment in China's trade ministry, also said that China was planning further steps to open its markets to overseas investors and these would be unveiled at a national symposium later this year.

Hong Kong, Japan, the US, Taiwan and South Korea would spearhead the continuing investment surge into China, Mr Lin told the English-language Business Weekly. "China's market is no longer potential, it's tangible," he said.

Official figures show that China signed agreements in 1992 involving \$68.5bn in foreign capital, while foreign funds actually flowing into the country last year totalled \$11bn.

Mr Lin predicted that the main targets for investment this year would be the automotive sector and onshore oil exploration. This latter was a reference to the invitation to foreign companies to

explore the Tarim basin prospect in China's far west, described as one of the world's last great oil frontiers.

China, facing energy and mineral shortages at home, is also conducting a wide-ranging survey of investment prospects abroad, according to Mr Zhang Hongren, vice minister of geology and mineral resources.

His ministry had launched preliminary studies of more than 20 countries in Asia, the Americas and Africa, including Australia and Brazil, said Mr Zhang.

Mr Lin said meanwhile that further steps to open China's automotive industries to foreign participation would lead to a big jump in investment.

He noted that China had approved foreign involvement in only 10 domestic automotive plants. "These plants far from meet the soaring domestic demand for automobiles."

Mr Lin did not expect the continuing depreciation of the yuan - it fell 7 per cent to Yn10.7 to the dollar last week - would deter investors.

China's investment revolution, Page 2



Somalis in Mogadishu inspect the damage caused by two US air strikes on warlord Gen Aided's weapons stockpiles and his radio station

Japanese shy away from move into east Germany

By Robert Thomson in Tokyo

JAPANESE companies, expected to play an important role in reconstructing Europe, have acquired a mere three businesses in east Germany through the Treuhand, the German privatisation agency - only one more acquisition than companies from India and the same number as Singaporean companies.

The total is a disappointment for the Treuhand and an embarrassment for the Japanese government, which had suggested, at the fall of the Berlin Wall, that the country's current account surplus would be recycled in the reconstruction of the region.

Having opened a Tokyo office two years ago in expectation of interest in the estimated 13,500 German companies on the block, the Treuhand has learned valuable lessons about Japanese corporate culture and the receding Japanese enthusiasm for Europe.

The Japanese total of three acquisitions, two in the glass industry and one in car servicing, compares with the 78 east German factories acquired by UK companies and the 54 bought by US companies. Indonesian companies have made two acquisitions, only one less than the Japanese total.

"It's quite amazing, isn't it?" lamented Mr Dietrich von Stackelberg, head of the Treuhand's east Asian operations. "The timing was wrong. With the collapse of Japan's economic bubble, we have seen an increasing reluctance to invest in Europe. Their operations are contracting, not expanding."

Facing criticism over Japan's huge current account surplus, the government had argued that investment in the reconstruction of Europe would recycle the surplus, which has more than trebled over the past two years. In the same period, new Japanese direct investment in Germany has fallen 38 per cent.

Mr Nobuyuki Nagashima, assistant director for Europe at the Japan External Trade Organisation, said German unification coincided with the slowing of the Japanese economy, while companies were unfamiliar with east German companies and reluctant to risk funds.

Mr von Stackelberg is due to depart later this year, and the lack of deals means there is little reason for the Treuhand to maintain Tokyo support staff.

He suggested that the agency's experience highlighted an important difference in corporate culture between the US and

Pakistani UN troops kill 12 Somali demonstrators

By Leslie Crawford in Mogadishu

PAKISTANI troops serving with the United Nations operation in Somalia killed at least 12 people yesterday when they opened fire on a 4,000-strong demonstration. Supporters of Gen Mohamed Farah Aided, the warlord whose forces the UN is attempting to disarm, were protesting peacefully in the centre of the capital Mogadishu.

The shootings followed two nights of US-led air strikes that crippled Gen Aided's clandestine weapons stockpiles. The operation was authorised by the UN Security Council after Aided's gunmen killed 23 Pakistani Blue Helmets last weekend.

The actions of the UN forces have buried its humanitarian mission in Somalia. Mogadishu is now a city besieged by a multinational occupation army. Gen Aided's supporters in the south of the clan-divided capital are stunned and angry.

Tanks patrol the streets. Helicopters swoop down to disperse crowds. Lorry-loads of detained men, women and children are being corralled at the grounds of the former university, now a US military centre.

UN tanks rolled by and ignored pleas for help from the many wounded in yesterday's shootings. On Saturday Pakistani troops fired into a crowd after stones were thrown. Their shots killed one Somali and wounded a woman and a man. The woman died later at Benadir hospital, where the injured were being operated on without anaesthetic on makeshift wooden tables swarming with flies.

The heavy-handedness of the Pakistani contingent has been a leading cause of rising tension and hostility against the UN in the capital. Brigadier Ikram ul-Hasan, commander of the 4,000 Pakistani peacekeeping troops in the Somali capital, told a press conference yesterday that he was investigating yesterday's incident. "The simple fact is that gunmen use women and children as human shields," he said.

The brigadier said he did not think his troops were an inflammatory presence. Nor did he think there had been a violation of the UN's rules of engagement.

Other UN military spokesmen have refused to comment. But the French relief agency Medecins sans Frontieres, one of the few still operating in the capital,

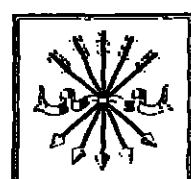
described the yesterday's killings as monstrous. At the hospital, a doctor said he was sickened by the events: "The UN has started another war in Somalia. The people are tired of war. Even if they kill Aided, there are thousands of other Aideds out there to take his place."

The midnight bombings were undertaken with surgical precision to avoid civilian casualties. US Cobra helicopters and slow-flying aircraft picked out three armament sites and Gen Aided's radio station during the first strike over Mogadishu on Saturday.

The bombers returned early yesterday to destroy what the UN claimed was a "veritable fortress" containing weapons, ammunition and armoured vehicles. It belonged to Mr Osman Ato, Gen Aided's financier. The explosion lit up the night in the blacked-out city. Later, a building held by Pakistani peacekeepers came under heavy rocket attack from Gen Aided's gunmen.

Reporters visiting the bombed site yesterday saw no evidence

Continued on Page 14



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CONTENTS

News
International News 2-5
UK News 6
Economic Indicators 4
Law 14
Weather 14
Week Ahead 8
Construction 10
People 10

Features
Leader Page 13
Letters 12
Management 9
Economics Notebook 6
Observer 14
TV and Radio 11
Art 30
Monday Interview 10

Announcements
Michael Prouse 30
Crossword 30
Compass 16, 17
UK/IRL 16, 17
Risk and reward 18
FT World Averages 25
Foreign Exchange 25

Managed Funds 23-24
Money Markets 25
New Int. Bonds 19
Int. Bond Service 18
Recent Issues 25
Share Information 25-27
World Stock Markets 20
Survey 20
Turkish Section 3

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Monday June 14 1993

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IMI plc, Birmingham, England.

INSIDE

Hanson may retract meeting rules

Hanson, the multinational conglomerate, said it may be prepared to give in to pressure from angry shareholders and retract proposals limiting their ability to influence annual general meetings, which are chaired by Lord Hanson (left). Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meeting to be held on June 25. However, he said: "When we come to review our articles next year we will see if they need to be changed." The proposals have provoked a storm of protest. Page 16

Ibos set to rival Swift

Up to five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into competition with the Swift system that dominates EC cross-border payments. Page 17

Enron sees opportunity

The deregulation of the tightly controlled natural gas business in the US has opened up new opportunities for energy companies, none more so than for Enron, based in the oil and gas capital of the US: Houston. Non-existent 10 years ago, Enron has mushroomed to the point where it claims to be "the nation's largest natural gas company". Page 17

Wall Street relaxes on inflation

Judging by the recently released May producer prices index for the US, it looks as if the inflation scare may be over. Page 18

Demand for gifts holds up

The announcement on Friday by the Bank of England that £700m (£1bn) of bonds will be on sale from today failed to puncture generally good demand for gifts from overseas investors. Page 18

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.4, according to IBES, the consensus estimates service (last week 14.4). This compares with an IBES estimated p/e for the "500" of 13.7 (18.6) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 19.3 (19.10).

Market Statistics

Base lending rates	25	London share service	25-27
FT-A World index	25	Managed fund service	21-25
FT/STNA Int bond avg	18	Money markets	25
Foreign exchange	18	New list bond issues	19
London recent issues	25	World stock mkt index	20

Companies in this issue

Bae	15	Kone	17
BP France	16	Microsoft	17
BT	16	Orion	16
Beaufort	16	Perpetual Japanese	16
Bulfin (AF)	16	Polio Portfolio	16
Business Technology	16	R.H.Macy	17
Cohen (A)	16	ROCO	18
Enron	17	Shenlink	18
Hambros Inv Trust	16	Sonic	16
Hanson	16	Tetra Laval	17
IMI	16	Vard	16
		Vech	16

Italy to sell off financial services group

By Haig Simonian in Milan

ISTITUTO Mobiliare Italiano, the big long-term lending and financial services group controlled by the Italian treasury, is to be floated following the collapse of sale talks to a group of public-sector savings banks.

The government will sell the treasury's 50 per cent stake in IMI, and a further 9.3 per cent owned by the Ina state insurance agency. Mr Piero Barucci, the treasury minister, said he hoped

a first 20 per cent tranche of IMI's shares could be floated by the year-end.

The 20 per cent stake could be worth about L1,600bn (£1bn), based on the valuation of between L7,600bn and L8,000bn for IMI made by SG Warburg, the main merchant bank. Warburg and IMI itself have now been given the mandate by the treasury to prepare the way for flotation.

IMI is one of Italy's biggest financial institutions, specialising in long-term corporate lending.

It also has a big securities trading capability, and has in recent years branched out into insurance and retail banking.

The failure of the sale talks means the government now has three big banks on its disposal list. Last year, it announced plans to privatise Credito Italiano, Italy's sixth-biggest bank, while Banca Commerciale Italiana, another prestigious financial institution also based in Milan, is due to be sold.

The change in strategy over

IMI came after the breakdown of talks with a group of savings banks, led by Milan's Cariplo, over the issue of price. In a terse statement, the government said the banks' offer was "inadequate both as far as the price and the means of payment is concerned".

While some analysts greeted the decision to float IMI as a boost for "transparency," it represents a severe setback to both the treasury and Cariplo. The government had been hoping to raise about L3,800bn from

the transaction. IMI, which had group net profits of L443bn and a loan book of about L51,000bn in 1992, is one of the most attractive assets on the government's privatisation list.

Purchasing IMI would have given Cariplo, always the leading force among potential purchasers, a boost. Although it is strong in retail banking and deposit-taking, Cariplo's presence in investment banking and securities trading is weaker, especially abroad.

Paul Betts explains a change of culture at the UK's biggest export manufacturer

Bae benefits as it brings its head out of the clouds

MR JOHN CAHILL flew in last week to his first Paris Air Show as chairman of British Aerospace on a regular British Airways flight.

"I'm a small businessman and I simply cannot justify coming here on a private Bae 125 jet at a cost of £5,000 an hour," he said, watching the noisy flight displays from Bae's entertainment chalet at the world's biggest air show.

Since he was brought in to lead the UK's biggest export manufacturer a year ago, Mr Cahill has sought to instil the same sort of "hair shirt" mentality that prevailed in his old company, the BTR industrial conglomerate.

Although the company is by no means out of the woods, and has been buffeted like the rest of the industry by recession in the civil aircraft market and contraction in the defence business, it had more to celebrate in Paris than most aerospace companies.

It was one of the few to announce a big order: for Hawk trainer-light attack aircraft worth £500m (£770m) from Indonesia. Its shares climbed over the 380p mark for the first time since its ill-fated rights issue 18 months ago, which provoked a savage boardroom battle, the resignation of the chairman, Professor Sir Roland Smith, and ultimately the arrival of Mr Cahill.

The company also returned in the FT-SE 100 index after a nine-month absence. Last September, Bae's shares hit a low of 107p. On Friday, they closed at 410p. This sharp rise is making Mr Cahill a little nervous. "It's getting too hot now. I'd hoped the share price wouldn't go through 400 so quickly," he said.

For Mr Cahill the reason the

company is returning to favour in the City is simple. "We simply had to tell the world what we were doing and then deliver the goods."

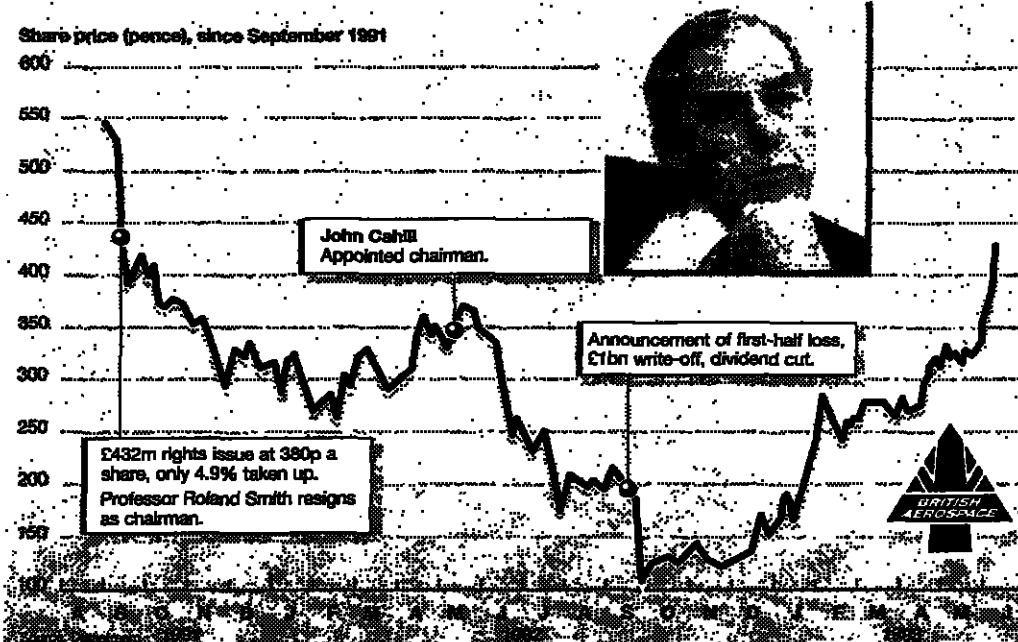
The strategy itself has not changed. What has changed, according to Mr Dick Evans, Bae's chief executive, is the internal chemistry. "No one guy can lead a company of this size which is very diverse and has a big political element because governments are our customers. But to be successful we had to have a team of people who were able to work together," he explained, adding that this had not been the case under Sir Roland.

But Mr Cahill has quietly brought a change of attitude and culture in the company. From the beginning, he sought to introduce at Bae the same concept of open management, accountability, transparency and tight cost controls that BTR adopted.

In the early 1980s, Mr Cahill recalled, BTR had a bad habit of always predicting more than it could achieve. The result was that the company lost money twice in three years. "We then set down and said: we must be predictable, reliable, an open book. Bae for many years was a very private company and we have to show that we have nothing to hide," he said.

Bae's basic strategy is "to support and protect" its main defence business, he emphasised. To do this, the company, which has been cash negative in the last few years, had to become cash positive again. "Cash is our mission. Our plan is to get over the hump, turn inventories back into cash and

Bae: share price roller-coaster



sell off non core assets," he explained. Three significant developments have recently helped revive confidence in the company's £5bn a year defence business: the UK government's commitment to the European Fighter Aircraft; Saudi Arabia's intention to go ahead with a new order for an additional 48 Tornado combat aircraft; and the negotiations to merge Bae's guided missiles activities into a joint company with those of the French Matra group.

In the commercial aircraft sector, Bae is focusing on its 20 per cent stake in the European Airbus airliner programme. After establishing a joint venture company with Taiwan Aerospace for its loss-making regional jet business, the company is now seeking a similar partnership with other international manufacturers for its Jetstream and ATP turbopropeller regional aircraft activities which have been regrouped at Prestwick in Scotland.

And two weeks ago, it sold for £250m its Bae 125 executive jet business to Raytheon of the US.

The decision helped the City of London realise the true worth of the company, Mr Cahill said. "The corporate jet business with £300m a year turnover and £25m pre-tax profits represented only 3 per cent of our total sales. We sold it for more than a quarter of our market capitalisation."

In any case, the trend in the hard-pressed commercial aircraft sector as well as in the military was towards ever-increasing consolidation and collaboration. "We have to rationalise and we won't be building aeroplanes on our own any more," Mr Cahill said.

"It is almost inevitable that in the US there will be two military aircraft and one large commercial aeroplane manufacturer, against just the possibility of one of each in Europe," Mr Evans forecast.

In the longer term, a similar consolidation is likely to take place in the car business, according to Mr Cahill. At present Rover remained an important component of his group. "The objective is to get Rover into profit and we hope to see Rover

moving into profit this year," he said. But what will eventually happen to the car group? "Who knows?" said Mr Cahill. "At the moment we have no plans, but I could see the car industry concentrated one day into six companies: two in the US, two in Japan, two in Europe - and one will not be called Rover."

Although he believes the company has now found some badly-needed stability, Mr Evans warned that the process of restructuring was by no means over. "We are now finally getting the organisation up and running again. But closures and redundancies have also created a lot of uncertainties and has made the job even more complex," conceded Mr Evans. Over the last three years, Bae has shed about 45,000 jobs. "And the process is not over," warned Mr Evans.

But for a short moment at least, Bae and its "wise old sage" of a chairman who has seen it all before, as Mr Evans described him, are having a party in Paris.

Telephone broker plans UK flotation

By Roland Rudd in London

SHARELINK Investment Services, the telephone-based UK stockbroker, is to float at the end of next month. The group is expected to be valued at more than £30m (£46m).

Around £5m of new money is to be raised which will be invested in new services.

Sharelink, which currently specialises in equities and traded options, is looking at expanding into insurance and banking.

Mr David Jones, chief executive, said: "The retail financial services market is full of opportunities; after pioneering the use of the telephone in selling shares we are now looking at moving into other areas."

He confirmed that this includes the rapidly growing telephone insurance business.

Direct Line, the company owned by the Royal Bank of Scotland which specialises in telephone insurance, recently trebled first-half profits to £15m.

Sharelink's two biggest shareholders, Foreign & Colonial Ventures and the British Coal pension fund, both of which have a 32 per cent stake, are expected to sell around half their shareholding.

Mr Jones, who started the business in 1987, is expected to sell 25 per cent of his 20 per cent holding making him a millionaire just six years after he invested £4,000 in the business.

He increased his shareholding after a management buyout from the original institutional backers, BT and Albert E Sharp, the Birmingham-based stockbroker.

The company's other shareholders are the employees with 10 per cent and Eagle Trust with 6 per cent.

Pre-tax profits for the year to March 31, 1993 have jumped from £1m to £3.5m on sales of £14m. The company is based in Birmingham with more than 300 employees.

In the past it has thrived on privatisations but during the last year it has mainly concentrated on equities.

A number of new issues have been brought forward before the government sale of its remaining 21.9 per cent stake in BT which is to take place in the middle of July.

However, Mr Jones believes the BT sale will not affect his float.

"There is plenty of money in the new issue markets," he said.

THE residents of Delhi and much of northern India were looking for scapegoats after power cuts which this week left them sweltering for many hours without lights, fans, coolers or air-conditioners.

The immediate cause of their distress was a surge in demand for electricity which overwhelmed the generation and transmission network.

That India, like many developing countries, does not produce enough electricity is well known.

India's Ministry of Power estimates that in the year to the end of March the shortages amounted to around 9 per cent of the country's total needs and 18 per cent of its peak requirement.

In the past, the standard response to power shortages in developing countries has been to build more power stations. In the late 1980s, India was building an annual average of 4,000 megawatts (MW) of generating capacity a year - the equivalent of four large power stations. By March 1992, total capacity in the public sector (which accounts for the vast majority of power) stood at 69,000MW.

However, in the 1990s, capital has been much harder to find. The public sector construction programme has almost ground to a halt and India is seeking private investors, including foreign companies, to take up the slack. Even if this initiative brings results, private companies will not contribute to a significant increase in power supplies until the late 1990s, given the long lead-times in making such large investments.

This gloomy prospect has forced the Indian authorities to concentrate upon doing something that should have been done a long time ago - making better use of existing plant. Indian power stations typically run below 60 per cent capacity. Also, 23 per cent of the power generated is lost in transmission - through theft

A test for the public services in poorer countries

or faulty equipment. While the efficiency of stations has improved in the past decade, transmission losses have actually increased.

Acknowledging the scale of the problem, the World Bank, the principal supplier of low-interest loans for power schemes in developing countries, has slowed new credits for new power stations and is lending India \$360m to fund improvements in the existing network.

The shortcomings in the

state to ensure that capital is exploited to its full potential. But in some countries, including India, full-scale privatisation is, at best, a distant prospect. Aside from the reluctance of politicians and officials to surrender administrative power, there are very real concerns about the regulation of private companies entrusted with essential services. For example, privatising the water supply in a drought-prone country such as India would be

politically impossible. The only alternative is to cajole public sector managers to become more efficient. The government can try to apply pressure, but frequently politicians' priorities will not always square with the goals of efficient management. In India, much electricity is stolen by residents of illegal slums, who attach wires to overhead cables. Since slum-dwellers have votes there is little political incentive to deprive them of free power.

The World Bank and other aid donors try to improve the running of public services by directing funds towards operations which are well managed, at the expense of those which are not. But there is a limit to which outside agencies can become involved in such detailed choices without being accused of bullying and interfering with national sovereignty. Also, the worst-man-

aged units are often in poor regions, precisely those which most need foreign aid. In India, the most efficient power stations were those in the state of Maharashtra, including wealthy Bombay, which ran at 58 per cent capacity. Those in deprived West Bengal managed only 28 per cent.

Another way for foreign donors to influence change might be to supply more information to consumers in India and other developing countries. The means might be to prepare league tables comparing the efficiency of the service delivery in different states. The World Bank and other international agencies already do this for many criteria, notably GNP and GNP per capita, and for the production totals of individual industries, including electricity generation.

The emphasis in such data is on volume. It would be possible to supplement the figures with statistics which measure the quality of what is produced. As far as public services are concerned, the electricity industry is a suitable starting point because production is concentrated in relatively few units, so collecting information may not be too difficult.

Capacity utilisation and transmission losses might be appropriate indicators. Other possibilities include capacity use in the water industry, average delays on railway journeys, flight cancellations by domestic airlines and the number of attempted telephone calls made for one successful connection.

Such figures would be of more than academic interest. Property packaged both for the officials who run public services and for consumers.

The popularity of such inter-country comparisons is amply demonstrated by the success of the United Nations Development Programme's annual report on human development which is in its fourth year and sells 100,000 copies.

Institutions interested in UK property investments

By Norma Cohen, Investments Correspondent

BRITISH institutional investors are showing more interest in domestic property investment than at any time in the last three years, according to a new survey.

The Smith New Court/Gallup Survey of Fund Managers for June showed that 22 per cent of those surveyed planned to increase their holdings of UK property, the highest level since the survey began in July 1990. Last month, 12 per cent said they intended to make UK property investments and in February, none was prepared to make such a move.

The survey, conducted on June 7th and 8th, covered 96 institutions with £861bn (£1bn) under management.

A balance of 6 per cent of managers planned to increase their holdings of UK equities, down from 18 per cent in May and the lowest level for planned investment in British shares this year.

In other asset categories, fund managers were less enthusiastic about foreign equities than a month ago, with a balance of only 6 per cent planning to increase European exposures, 9 per cent raising Japanese weightings and 24 per cent increasing investments in other areas. In May, the weightings were 13, 24 and 28 per cent respectively.

There has been an increase in the popularity of index-linked gilts since March. In the June poll, a balance of 8 per cent planned to raise investments in that sector, up from 1 per cent in March.

This announcement appears as a matter of record only.

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June, 1993

NEWS: CHINA'S INVESTMENT REVOLUTION

Emigrant entrepreneurs seize new opportunities back home

By Kieran Cooke in Kuala Lumpur

IN September 1993 the imperial authorities in China issued an edict encouraging successful Chinese emigrants to invest in their homeland. The edict proclaimed that the overseas Chinese would in future be welcomed back to China - a reversal of previous policy which had not recognised those who had left China's shores.

Now, 100 years on, China is once again wooing the overseas Chinese to participate in developments at

home. And the Chinese diaspora, many of whom are removed from China by several generations, are responding.

While investment in China by US, Japanese and EC interests has been increasing substantially, it is the financial resources of the overseas Chinese which are now beginning to transform many parts of China.

Just how much of China's foreign investment is accounted for by overseas Chinese is hard to gauge. But its influence is plain to see.

Guangdong province in the south

has been transformed by capital flowing in from nearby Hong Kong. Businessmen from Taipei are overrunning Fujian, the mainland province just across the water from Taiwan. The vast resources of the overseas Shanghaiese - some of them the entrepreneurs primarily responsible for the emergence of Hong Kong in the 1950s and 1960s - are now returning home.

Traditionally the overseas Chinese have always been great savers. Taiwan, with 21m people, has foreign exchange reserves of nearly

\$90bn. Singapore, three quarters of whose 2.8m people are Chinese, has reserves of more than \$40bn.

The Chinese dominate the economies of south-east Asian countries. In Indonesia, Thailand, Malaysia and the Philippines it is the Chinese - though often only a small minority - who control trade and run the biggest companies.

Mr Liem Sioe Liong, an Indonesian Chinese, runs the Salim group, believed to be the biggest in the region with an estimated annual turnover of \$6bn.

Mr Liem, who left China as a penniless teenager, is now investing millions in China, much of it in property in areas round his birthplace in Fujian province.

Mr Robert Knok, a Malaysian Chinese, has a business empire mainly involved in commodities and hotels. Mr Knok is investing in building hotels and commodity processing facilities in various parts of China.

Chinese businesses are traditionally family-run, secretive enterprises. A web of Chinese family concerns stretches throughout east Asia

and, increasingly, into China.

For the most part the overseas Chinese avoid China's cumbersome bureaucracy; in many cases they strike informal deals with local groups, often based on family connections.

For some there is a strong emotional attachment to the homeland. But most investments are made for hard-headed commercial reasons. They, like so many others, are intent on making the most of the opportunities available in such a vast market.

Careful planning key to rewarding ventures

By Alexander Nicol, Asia Editor

CHINA'S remarkable progress may tempt unwary foreigners to believe they can simply invest in a joint venture, sit back and wait for the profits to roll in.

Not so. Joint ventures require enormous preparation and constant attention. The Chinese economy has moved some way towards the market, but businesses still need the right contacts to ensure success. Problems need to be worked out through persistent negotiations.

Businessmen and lawyers with experience of China say that the rewards are there, but they have to be earned. They offer these suggestions:

● Identify what you want out of a joint venture, and try to anticipate what a potential partner would want. You may have an eye on the domestic market, but a Chinese company may be looking to export. Mr John Beyer, director of the China-Britain Trade Group, says: "Quite a lot of joint ventures have failed by the roadside because the two sides have not identified overlapping aims."

● Find the right partner, whose most important qualification will be good connections in relevant city, provincial and state bodies.

Mr Robbie Robertson, director of strategic relations for GPT, which has a successful joint venture making FAX telephone systems in Shanghai, says: "If a venture is not with the right people, it will not succeed." A partner provides access to a skill and labour base, as well as the local clout to ensure that a venture receives materials for which state or municipal authorities remain responsible.

● Pick the right location. Though investment has poured into special economic zones where set-up costs may be lower, the quality of infrastructure, particularly for transport, will be more important in the longer run.

● Get a good contract including a reasonable amount of detail. Mr Stuart Valentine, a solicitor at Clifford Chance in Hong Kong, says this is important even though Chinese state-owned enterprises of a contract may differ. The Chinese are likely to treat it as a framework for discussion in the event of problems. "You can't bang the table and say 'this is what the contract says,'" Mr Valentine says.

● Resolve problems through negotiation. There is little point in pursuing a claim through the courts in China, and lawyers say they know of no case in which a judgment in a foreign court or arbitration tribunal has been enforced in China.

● Use expert advice and the experience of others. For British businesses, the China-Britain Trade Group runs seminars and "workshops" in China in the autumn as part of an investment mission.

Lure of the billion-buyer market

With 1.1bn people, the world's biggest consumer market is eyed increasingly seriously. Foreign investment doubled last year and is projected to surge again this year. FT writers report

By Tony Walker in Beijing

MR YE DISHENG, the lively vice-mayor of Tianjin and the man in charge of attracting foreign investment to the north-east industrial city, had no reservations about his mission in life.

Asked if he was concerned about problems of economic overheating, Mr Ye observed: "It's not nearly hot enough in Tianjin. We want more heat."

While his words may cause a shudder among Beijing bureaucrats charged with restraining China's runaway economy, they also neatly reflect sentiments among Chinese provincial officials who see a rapid inflow of foreign investment as bringing jobs, raising living standards and overcoming acute infrastructural problems.

Mr Ye and his colleagues in China's coastal regions and in a handful of inland industrial centres could hardly complain about new investment contracted in 1992, which reached astonishing heights and confirmed China as the main destination for new funds in the world's fastest growing region - and as the recipient last year of about one quarter of funds invested in developing countries worldwide.

According to official statistics, China signed agreements in 1992 involving \$68.5bn in foreign capital, two and a half times that for 1991. Foreign funds actually flowing into China last year totalled \$11bn, more than double the year before, and the surge is continuing.

Figures this month from the Ministry of Foreign Trade and Economic Relations (Moftec) showed that in the first quarter 17,500 projects involving foreign capital - and worth nearly \$25bn - were approved, up 320 per cent on 1992.

Western economists urge caution in assessing Chinese statistics, which are invariably accompanied by highly optimistic official interpretation. For a start, China often builds into the investment figures equity from the Chinese side, thus giving an exaggerated impression of the size of the capital inflow.

Also, some investment is of Chinese origin but has been routed through offshore entities to take advantage of tax breaks.

Many so-called agreements are also little more than promises, with little chance of yielding projects on the ground. An allied problem has been Chinese sluggishness in absorbing investment due to bureaucratic blockages, infrastructural deficiencies and cultural and political hesitancy. Between 1978, the first year of the economic "open door" policy, and 1991 China signed contracts worth \$48bn, of which less than half was actually invested.

But circumstances are

changing, not only in go-go Guangdong province in the south, but also in other cities such as Shanghai, Tianjin and now even staid, bureaucratic Beijing, all of which have joined the scramble for investment funds. It is perhaps hard to believe that one man could have such an effect in a country of 1.1bn people, but there is no doubt that a visit to southern China early last year by Mr Deng Xiaoping, the country's supreme leader, in which he urged swifter growth, employing the simple slogan "Do it faster", has galvanised a nation.

The "emperor" spoke and officials rushed to do his bidding, culminating in a frenzy of activity in the last quarter of 1992 in which more than \$30bn of contracts were signed, equivalent to figures for the rest of an extraordinary year.

Among the more amazing statistics regarding foreign investment to have emerged from China's ever-grinding sta-

A bout of 'China fever' is sweeping through world business

tistical mill recently were those revealing that in 1992 alone 47,000 joint ventures, co-operative enterprises, and wholly owned foreign ventures were established, exceeding the total number of the previous 14 years.

In all, 100,000 enterprises with foreign involvement were registered by the end of the first quarter this year, most of them small businesses such as restaurants and hairdressing salons employing a handful of people each. Hong Kong and Macao investors are behind the bulk of these smaller businesses.

But an emerging trend involves increased Japanese, Taiwanese, US, and South Korean investment in larger-scale projects. Japanese companies, which had proved reluctant in the 1980s to become involved in China, are now beginning to make more substantial investments. Taiwanese and South Korean groups, both late starters, are following suit.

By the end of 1992, Taiwanese businesses had signed contracts valued at \$8.5bn. Companies from South Korea, which formalised relations with China last August, had initiated agreements worth \$61bn, and

much more is in the pipeline. "More large projects, whose average total investment stands at over scores of millions of US dollars were set up in the first three months," Mr Yang Xiaogang, a spokesman for Moftec, was quoted as saying this week by the official China Daily.

Of the actual direct - as opposed to simply contractual - investment recorded by Moftec of about \$37bn to the end of 1992, Hong Kong and Macao head the table with a little more than 50 per cent, or an investment of \$21.2bn, followed by Japan with \$3.9bn, the US on \$3.2bn, Taiwan \$1.9bn and Germany \$471m, to name the top five.

Big increases in contracted investment were also recorded by Singapore and Thailand, a reflection of the growing involvement in China of wealthy overseas Chinese in those countries. Interestingly, investment is also beginning to trickle into China from Russia, eastern Europe and the Middle East.

Among factors fuelling the investment surge, apart from a bout of "China fever" that appears to be sweeping the international business community, is the relaxation of restrictions on investment in real estate. Overseas Chinese-controlled companies, especially those based in Hong Kong, have been pouring funds into real estate projects in the hope of capitalising on huge projected demand for commercial and residential property.

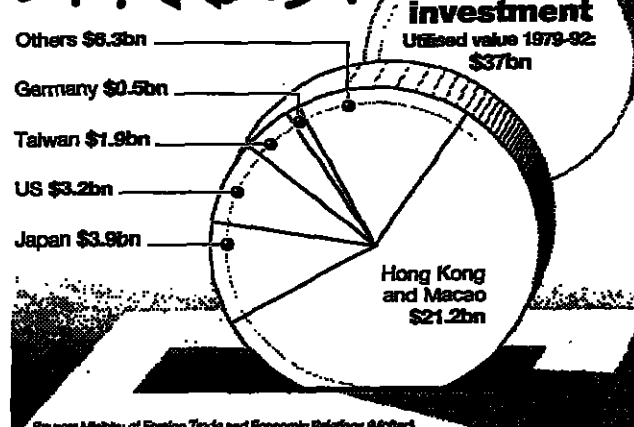
In Shanghai, for example, the Municipal Investment Commission approved 780 new projects in the first three months of this year worth about \$1.8bn. About half this new investment will be channelled into property.

Local investors have also plunged into property development throughout China, especially in the southern regions like Guangdong and Fujian, in the expectation of riding a speculative wave; some of these local property developers may be in for a shock with the government squeezing credit to try to calm an overheated economy.

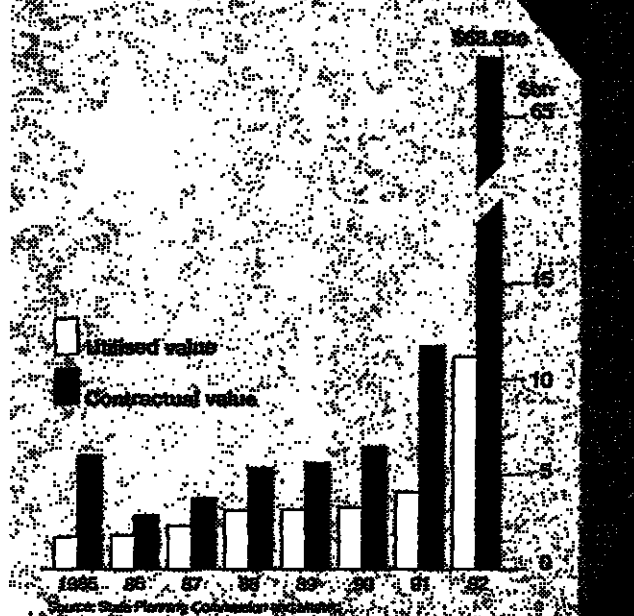
Another factor driving the investment surge is China's embrace of build-operate-transfer infrastructure projects such as those in the power sector. Hong Kong investors such as the Hui Yee Holdings have been active in this area, no doubt encouraged by the bounty earned by early investors in Hong Kong utilities such as China Light and Power.

The explosion of activity has contributed to an atmosphere in China somewhat akin to that of a gold rush, with businessmen and their overseas Chinese agents pouring in from all over the world, negotiating deals and signing contracts with apparent abandon.

外商投资



Source: Ministry of Foreign Trade and Economic Relations (Moftec)



Source: State Planning Commission (SPC)

Germany's AEG sets its sights on vast railways potential

By Christopher Parkes in Frankfurt

THERE are about 30 cities in China with more than 100 inhabitants; several forming the focus of conurbations which are home to up to 15 million people. Only two and a bit - Beijing, Tianjin and Shanghai - have an underground railway.

Mr Klaus Oertel, the board member responsible for AEG's fast-growing rail systems division, does not even attempt a guess at the sales potential. He focuses instead on the steady devolution of centralised decision-making powers to regional and city authorities which is slowly opening China's infrastructure market to outside expertise and investment.

Four years after leading a German consortium into the fledgling Shanghai metro network with a DMS30m (\$215m) start-up order for 96 underground carriages, power supply, overhead line and telecommunications equipment, the Daimler-Benz subsidiary is on the verge of making its first direct investment in Chinese railways.

This month, during the opening of the first stretch of Metro Shanghai, Mr Oertel signed a letter of intent to take a majority stake in a joint venture to make trains in China with the

Shanghai Crane and Conveyor Works. With a stake of less than DM10m, and planned start-up capacity of one carriage a week, the deal is a tiny step along what may prove to be a permanent way leading to an infrastructural Eldorado.

Like most German companies, AEG has been relatively slow and cautious in its entry into China. But Mr Oertel disputes claims from the likes of

Further articles on foreign investment in China will appear shortly on the World Trade News page. They will examine the involvement of companies from Hong Kong, Japan and Singapore and will profile the long-established Beijing Jeep plant owned by Chrysler.

Mr Hans-Joachim von Ludwig, a director of Alcatel SEL, a Franco-German telecommunications consortium, that Germany "seems to have lost track of the opportunities".

According to Mr von Ludwig, only 3 per cent of all German foreign direct investment last year was made in Asia, compared with Japan's 38 per cent. Mr Oertel accepts that Germany, occupied with a European and domestic boom for most of the 1980s, was late to join the "travelling circus" search for low-wage manufacturing bases.

But AEG is now more con-

cerned with the future. So far Shanghai has opened only one 14km stretch of metro track in a planned network of 180km which, Mr Oertel says, will require about 1,000 carriages over 15 to 20 years. Meanwhile, the company is discussing a further joint venture with Changchun Railcar Works, the country's biggest rolling stock maker, and is in talks at central government level in Bei-

jing on the prospects of deals in the locomotive industry. AEG's plans, set up in-house by a group led by chairman Mr Georg Stöckl, are part of a grand group design, overseen in Daimler's Stuttgart headquarters.

In a surge of activity, focused on what one Daimler official calls a "state" visit by Mr Gerhard Liener, the finance director, Daimler group companies have this year already signed or finished negotiating more than half a dozen projects in China. Mr Liener recently capped the package with an announcement that

the size and resources of its supporting parent. While Mr Oertel says he is not at all concerned about the possibility of damaging political upheaval in China, he acknowledges the risks inherent in investing in fast growing and feeble economies. "Anyone going into a developing market must be clear that while in the long run everything will work out, in the short-term someone has to pay the water bills."

Against these negative factors, there is the relative flexibility which the Chinese system offers, and the deep-rooted commercialism of its people. Gillette is free to remit profits

Many chins make light work of razor sales targets

By Niddi Tait in New York

FOR Gillette, the Boston-based razor manufacturer, China has switched from being a possibility to a reality in three years.

The groundwork was laid in the early 1980s. The US company entered mainland China ten years ago, via a small 50:50 joint venture, called Shennel Daily Use Products. This operation was negotiated with the Chinese authorities in Liaoning province, to the north-east of Beijing.

It comprised an existing plant in Shenyang, which - with expertise from its US partner - has produced double-edge blades and razors under the Gillette brand name for a decade.

Gillette says the venture has been consistently profitable, and "sells everything we can make". But it remains small: annual production is around 60m units, in a market which absorbs 1bn units a year.

Mr Gaston Levy, head of Gillette's international group, says the northern location is not ideal. "It became a regional issue, but, as a pilot project, Shennel did allow us to understand the Chinese mentality."

So, in about 1988, Gillette began to look at central and southern regions. The crushing of the pro-democracy movement in Tiananmen Square in 1989 caused the group to put plans on hold, but then it began talking to the authorities about setting up a joint venture with China's leading blade manufacturer in Shanghai.

Negotiations, spanning layers of officialdom, took two years. Mr Levy remembers that his counterparts insisted on talking only after dinner. Typically, the Chinese would then retire, to discuss their bargaining position, in the early hours. When they returned, the US side would also politely bow, hold its own caucus, and respond. By three or four o'clock, a negotiating point might be

resolved. This laborious process was, he thinks, an indication of the Chinese distrust of foreigners. "They're very, very careful - caution is much greater than anywhere else in the world."

But, last August, Gillette had a deal. A joint venture with the Shanghai Razor Blade Factory was agreed, setting up a new company called Gillette Shanghai. Gillette obtained a 70 per cent share in the business and management control, while the Chinese retained 30 per cent. All of Shanghai's plant was taken over by the new company, and the joint venture agreement called for "first phase" capital investment of \$60m. Gillette would fund \$46m.

Today, about two-thirds of this money has been invested and the operation employs more than 1,000 people. Gillette, meanwhile, has seven expatriates - some of Chinese origin - working there. The business, says Mr Levy, is profitable.

The deal took Gillette's share of the domestic blade market from about 10 per cent to over 70 per cent. Mr Levy admits that China is not the most compelling of markets in terms of "shaving usage". The former Soviet republics, for example, have a much higher "shaving frequency" and associated blade demand.

But China's appeal is partly its sheer size - a population of 1.1bn means a lot of blade sales, even if shaving is not ubiquitous - and partly the potential it offers for pushing more advanced products.

At present, basic blades sell for the equivalent of three US cents. By nudging consumers towards more sophisticated shaving products, Gillette sees scope for initially doubling this, and eventually raising it five or six-fold. Already, the Shanghai plant is being geared up for production of disposable razors.

Mr Levy does not make light of

the problems. Language is an obvious one, causing the US company to station interpreters on site. Marketing is another. The joint venture is required to supply the Chinese government with a minimum number of blades for export, but can then sell its remaining output as it wishes. The operation had previously depended on the government purchasing network, but Gillette is trying to develop its own wholesale distribution system. Outside of the Shanghai area, says Mr Levy, this is still a tough task.

The much-feared overheating of the Chinese economy is a background concern. "Inflation would worry us," says Mr Levy, noting that it has reached double-digit figures in some areas.

Against these negative factors, there is the relative flexibility which the Chinese system offers, and the deep-rooted commercialism of its people. Gillette is free to remit profits

if it wishes, and to choose how products are marketed and sold. Meanwhile, the much-valued "trading mentality", in Mr Levy's eyes, differentiates China hugely from parts of eastern Europe.

Certainly, Gillette's commitment to China seems to be increasing. The company is now edging into the toothbrush business.

Last month it set up a small joint venture plant in Shanghai, employing under 100 people and producing Oral-B toothbrushes - both for sale in the Chinese domestic market and for export. Again, China does not look the most promising of markets: there is reckoned to be one dentist for every 77,000 people, and the "average" Chinese buys one toothbrush every four years. But the market is huge, and the government is anxious to improve healthcare. Demand for better-quality dental products, Gillette argues, can only increase.

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Chinese peasants riot over tax rises

By Tony Walker in Beijing

GROWING dissatisfaction among China's 800m peasants has spilled over into persistent and angry clashes with officials, including riots in Sichuan, the country's most populous province.

Provincial officials confirmed that crowds of peasants had earlier this month besieged government headquarters in Renshou county, 80km south of Chengdu, the provincial capital, to protest over increases in taxes and charges to fund a local highway.

Peasants are reported to have rampaged around the town, blocking traffic, assaulting officials and attacking vehicles. The disturbances took place between June 3 and 6.

Police used teargas to break up angry mobs whose numbers are said to have ranged between a few hundred and as many as 10,000. A provincial government official in Chengdu confirmed that a riot had taken place, but he was reluctant to go into detail.

Western officials, who visited Renshou in the past few days, said they had noted evidence of trouble, including slogans daubed on walls denouncing local officials, but felt reports of mass disturbances were exaggerated.

The troubles in Sichuan are by no means an isolated incident, however. They demonstrate widespread dissatisfaction among China's peasant farmers who are being left behind in the country's economic boom as the gap widens between city and country.

Official statistics show that average per capita peasant annual income stands at Yn770 (\$90). This represents less than half the average of urban dwellers.

Stories abound of clashes between mutinous peasants and the authorities. Among recent episodes are disruptions caused to rail traffic in central Henan province after a dispute over requisition land for rail crossings and protests in southern Guangdong province over compensation for land seized by the state.

Hard-pressed peasants have also been assaulting tax collectors, sometimes violently. The new militancy among peasants, dismayed at their inability to share the fruits of China's economic boom, may well prove the government's most serious challenge in years.

China's leaders have, belatedly, recognised the dangers. Mr Qiao Shi, a member of the politburo's ruling seven-member standing committee, recently visited Sichuan to urge better treatment of peasants by local officials, who are being blamed for corruption and for extorting excessive charges and levies.

China's official media has been full of exhortations to officials to be more sensitive to the plight of the peasants. The central authorities have been releasing funds to redeem IOUs to farmers for grain acquired compulsorily by the state. Failure to honor these commitments has proved a principal cause of unrest.

The Public Security Ministry has also issued an order to police to stop harassing peasants and imposing arbitrary fines.

Cambodia losers go back on their word

The ruling communists have refused to accept election results, writes Victor Mallet

IF the United Nations fails in its \$2bn mission to bring peace and democracy to Cambodia, much of the blame will be laid at the door of the Cambodian politicians who did the opposite of what they said they were going to do.

The opening in Phnom Penh today of the Cambodian assembly, elected in UN-organised polls last month and charged with creating a new constitution and forming a government, is overshadowed by continuing violence and threats of secession from the existing communist administration.

"We consider ourselves sports," Mr Hun Sen, the prime minister, had said before the election. "We are prepared to transfer everything to the winner."

But when his Cambodian People's party (CPP) won only 51 seats in the 120-member assembly, against 58 for

the royalist opposition party Funcinpec, he changed his tune, claiming "massive irregularities" in the election and refusing to recognise the results or hand over power.

Over the weekend the CPP has condoned the formation of an "autonomous zone" of seven eastern provinces. CPP-organised demonstrators have threatened UN workers and Funcinpec officials and forced the UN and Funcinpec to evacuate their civilian staff from several provincial towns.

The secessionist movement, designed to press the UN and Funcinpec into meeting CPP demands, is led by senior CPP officials and has been greeted with little enthusiasm by the public.

Other factions have also performed political somersaults in response to Funcinpec's success.

The extreme left-wing Khmer Rouge, which withdrew from the peace process and attacked the election as a "cheating and dirty" means of legitimising the Vietnamese-installed CPP government, is now loudly demanding in the name of democracy that the CPP yield to Funcinpec — once a Khmer Rouge ally.

Funcinpec itself, having promised to hand executive power to the erratic elder statesman Prince Norodom Sihanouk if he won the election, was appalled when he seized the initiative and attempted to form an interim government that gave the CPP equal weight with Funcinpec.

Prince Ranariddh, Funcinpec leader and son of Prince Sihanouk, yesterday condemned the CPP secessionists as "renegades", demanded that the CPP recognise the election results and

raised the spectre of a renewed outbreak of civil war.

"We are ready to set up our own forces to fight and liberate that part of Cambodia, and I hope we will be supported by the world community," he said. "We do have arms, weapons caches in those provinces."

In fact Funcinpec is almost finished as a military force, and Prince Ranariddh's other threat is likely to carry more weight. "I will travel around the world," he said, "to explain the real situation of Cambodia and ask them to clearly condemn the CPP and to freeze any aid and any support to those who are acting against the will of the Cambodian people."

Despite the animosity between the two largest parties in the assembly, the western and Asian backers of the 1991 Cambodian peace plan believe

that stability will be best served by a Funcinpec-CPP coalition, if only because the CPP has the only credible Cambodian military force apart from the Khmer Rouge guerrillas.

CPP support will also be needed for the passing of a new constitution in the assembly by a two-thirds majority. UN officials and western diplomats are hoping that at least some CPP leaders, particularly in the armed forces, will refuse to risk further international isolation by defying the UN.

Cambodia and its communist administration are broke, and soldiers are often paid months late. One of the few bargaining chips held by the UN Transitional Authority is its plan to pay soldiers and civil servants some \$5m to \$7m a month until a recognised government is formed.

Reduced support for Iran president

IRANIAN President Akbar Hashemi Rafsanjani won a second four-year term yesterday with a reduced vote that underlined the waning popularity of the country's Islamic revolution. Reuters reports from Tehran.

But Mr Rafsanjani saw the result as a vote of confidence in his economic reform plans. "That a considerable majority of people supported the programme is a great asset for me and my colleagues that would encourage us to execute the rest of the programme with confidence," he said in a message broadcast on radio and television.

Diplomats described the result and the low turnout as a near-humiliation which could severely limit the president's authority.

Final results of Friday's poll, announced yesterday, gave the 58-year-old cleric 10.6m votes, or 63.2 per cent of the vote, compared with 94.5 per cent in the 1989 election.

The turnout was 57.6 per cent, showing that economic hardship made many voters indifferent to calls from the ruling clergy for a mass display of faith in the 1979 revolution.

It meant that Mr Rafsanjani, running against three no-hope challengers, won endorsement from fewer than 11m of the 28m Iranians eligible to vote. The big surprise was Mr Ahmad Tavakkoli, a former labour minister who now edits the economic section of Tehran's right-wing daily Resalat. His campaign attacks on economic mismanagement captured 23.8 per cent of the votes.

Diplomats said the weakened Mr Rafsanjani may now be more reluctant to push through with efforts to curb radicals who continue to foment militancy at home and abroad.



Trade unionist Chakufwa Chibana, leader of the Alliance for Democracy (Aford), gives a victory salute to supporters as he is freed on Saturday after six months in a top security jail for sedition. The alliance is campaigning for a multi-party vote

Malawians vote on democracy

THE LIFE presidency of one of the world's most durable absolute rulers goes on the line today when Malawi votes on western-style democracy, Reuters reports from Blantyre.

Dr Kamuzu Hastings Banda has run the tiny southern African nation like a private estate since independence from Britain in 1964. But he has been forced by internal unrest and western pressure over abuses of power to hold a referendum on whether Malawi remains a one-party state or permits opposition parties.

The nonagenarian Ngwazi, (conqueror) — officially he is 87 but is widely believed to be around 95 — predicts the roughly 4m voters will endorse his paternal autocracy.

An opposition alliance is equally confident that Malawians have woken up from years of oppression to a new dawn of democracy creeping over Africa.

Whatever happens, diplomats say it is unlikely Dr Ban-

da's old style of government, which critics say brooks no opposition on pain of detention or even death, can survive.

Western donors who keep the nation afloat are withholding all except humanitarian assistance in protest against human rights violations. Malawians have shown unprecedented resistance to the ruling Malawi Congress Party (MCP) — rioting a year ago killed about 40 people.

Even the old president has appeared to acknowledge he cannot go on as before. At one rally he conceded there was more than one side to debate.

The Alliance for Democracy (Aford) is campaigning for a multi-party vote with the United Democratic Front (UDF) led by Mr Bakili Muluzi, a sacked former minister.

In event of a victory, the opposition wants a national unity government set up within a week to draw up a democratic constitution and a bill of rights.

Nigerian election goes smoothly but turnout low

By Paul Adams in Lagos

NIGERIA'S military government successfully staged elections for a civilian president on Saturday, after three delays in the last three years, but turnout was low. Results are unlikely to be announced until tomorrow at the earliest.

Among those who did not cast a vote were Mr Bashir Tafa, the presidential candidate for the right-of-centre National Republican Convention (NRC), and his vice-presidential running mate, Mr Sylvester Ugho. Mr Tafa arrived late at his local polling booth in the northern city of Kano, and found that his voter's registration card was out of date.

Under Nigerian law, a candidate is barred from winning the presidency if he is not registered to vote in these polls, but the National Electoral Commission has already cleared both parties' candi-

dates to stand for election.

Mr Tafa's rival, Mr Moshood Abiola, had no such problems at his polling station, which is in Moshood Abiola Crescent in Lagos, but the turnout, even in such partisan territory, was about a third of the number registered to vote.

Of the 38m who are registered, disillusionment with the choice of candidates and the rigid voting schedule helped to keep voters away even in the urban areas where there were shorter travelling distances. Everyone had to be at their polling station by 8am to be accredited and to remain after voting until about midday when the ballot papers were counted.

Polling passed off smoothly in most parts of the country. The agents of both parties were able to check the count at each level. One of the foreign observers at these elections will be at the electoral commission headquarters to watch the final count.

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NEWS: INTERNATIONAL

Apple chairman puts emphasis on breakthrough in the Gatt market access talks

Trade seen as key for Clinton

By Lionel Barber in Brussels

BIG business in the US is worried about President Clinton's slide in popularity but is pinning its hopes of a revival on a breakthrough in the Gatt world trade talks next month, according to Mr John Sculley, chairman and chief executive of Apple Computer.

Mr Sculley said an agreement on market access between the US, Japan, Canada and the EC at next month's G7 summit in Tokyo would give an important psychological stimulus to

the world economy, strengthening Mr Clinton's chances of securing congressional support for his tax package.

A confidant of Mr Clinton, Mr Sculley added these two successes would leave the president able to take on ratification of the North American Free Trade Agreement with Mexico and Canada. "Then you will see his popularity increasing dramatically in September and October."

Mr Sculley offered his assessment of the US and European political scene during a wide-ranging interview last week in

Brussels, where he was attending a meeting of the Transatlantic Policy Network, a new group of industrialists and parliamentarians dedicated to improving transatlantic relations.

In the interview, Mr Sculley described Mr Jacques Delors, president of the European Commission, as a "true visionary" in his drive to create the European single market. Now he was the ideal figure to carry a new message: that the EC had to move from the "old economy" to a new, high skills, information intensive economy

dependent on increasing productivity.

Higher productivity did not mean fewer jobs, he said. Rather the aim should be to raise productivity through economic expansion by means of greater market access.

Mr Sculley was unequivocal about the EC's plans for a single currency.

He criticised high German interest rates as "a misplaced policy", adding that it was unfortunate that all of Europe was having to pay for the assimilation of East Germany into West Germany.

On trade matters, Mr Sculley drew a distinction between Japan and the EC, noting that the US-European relationship had largely been trouble-free in the context of the overall trade balance.

On Japan, Mr Sculley strongly defended the administration's tough approach. Although he rejected the term "managed trade", he suggested that some numerical measure of market access was justified. "However you get there, the US can't go on year after year with a huge bilateral imbalance between us and Japan."



Sculley: defended US approach to trade with Japan

NEWS IN BRIEF

French bank reform backed

THE French National Assembly has approved the Balladur government's proposals to reform the statutes of the Bank of France so it can become an independent central bank in keeping with the terms of the Maastricht treaty, Alice Rawthorn writes from Paris.

Despite opposition from hardliners in the Socialist opposition and from Gaullist nationalists within the centre-right coalition government, the National Assembly voted to accept the proposed reforms by an overwhelming majority.

Mr Edmond Alphandery, economy minister, will on Wednesday present the final proposals for the new Bank of France legislation to the council of ministers. Under the new law the term of office of the governor and two deputy governors of the bank will last for six years and can be renewed once.

Mints cash in on gold coins

Seven of the world's mints are hoping to cash in on a reviving consumer interest in gold coins following the recent rally in the gold market. David Blackwell reports from Istanbul.

The World Gold Council, trade association of the gold mining industry - revealed at the weekend that world sales of the five leading gold bullion coins on the international market rose by 56 per cent in April and May to 270,892 troy ounces, compared with the same period last year.

The council and the mints are spending \$6m on a co-ordinated world advertising campaign starting in the Financial Times on Monday for the Australian kangaroo nugget, Austria's Vienna philharmonic, Canada's maple leaf, Mexico's libretad, South Africa's kruggerand, the UK Britannia and the US eagle.

Jailed westerners in Baghdad

Foreigners visiting westerners detained by Iraq confirm that a Briton and a German sentenced to eight years in prison for illegal entry are now in a Baghdad jail, diplomats said yesterday. Reuters reports from Baghdad.

They said the Briton, Simon Dunn, 23, and the German, Kai Sommermann, were in Abu Ghraib prison on the western outskirts of Baghdad where other foreigners charged with similar offences are serving their sentences. The two men were arrested at gunpoint on May 28 and had been sentenced to eight years in jail on June 6 for illegal entry, a Foreign Office spokeswoman has said. Their imprisonment brings to six the number of Kuwait-based expatriates jailed by Iraq this year for illegal entry.

Israel approves free trade zone

Israel's cabinet yesterday approved plans to establish a private sector free trade zone to stimulate foreign investment and create jobs, Julian Oszanne writes from Jerusalem. Investors in the zone, to be sited either in the Galilee or the Negev desert, will be granted a 20-year income tax holiday and indefinite exemption from customs duties and import taxes.

Mr Avraham Shochat, finance minister, promised that the free trade zone, the country's first, will create thousands of jobs for an economy with an unemployment rate of 10.6 per cent.

The finance minister also said yesterday that the scheme was designed particularly to attract US and other foreign companies which have complained about excessive bureaucratic red-tape for new foreign investors in Israel.

Egyptian extremist hanged

A Muslim extremist convicted of terrorist attacks and trying to overthrow the Egyptian government was hanged yesterday, the first execution among 22 militants sentenced to death by military courts, AP reports from Cairo.

An Egyptian convicted of spying for Israel was also hanged, said a military official who declined to be further identified.

Last year, President Hosni Mubarak started referring Muslim extremists to military courts to ensure speedy trials. The government has been involved in a violent confrontation with the radicals who want to turn Egypt into an Iranian-type theocracy. Over 150 people have been killed since 1992.

'Rattle Pepsi can before sipping'

The president of a regional Pepsi bottler urged cola drinkers to rattle their cans before taking a sip after a second can of Diet Pepsi was found to contain a hypodermic needle, touching off a federal criminal probe, Reuters reports from Seattle.

Mr Carl Behnke, president of the regional Pepsi bottler Alpac, said that preliminary Food and Drug Administration (FDA) laboratory tests revealed no contamination but urged consumers to inspect soda cans carefully.

Mr Behnke said the FDA had not advised it to recall its products, but it had opened a free consumer hotline.

US, Japan fail to bridge gap in trade talks

By Michio Nakamoto in Tokyo

TWO days of talks between the US and Japan, which ended in Washington on Saturday, failed to narrow the gap between the two sides on a framework for bilateral trade negotiations and in particular on how Japan's huge trade surplus might be reduced.

The talks were the first round of formal exchanges between US and Japanese officials aimed at formulating a framework for negotiating economic and trade issues, which was agreed between President Bill Clinton and Mr Kiichi Miyazawa, the Japanese prime minister, in April.

The inconclusive nature of the talks leaves the possibility of further uncertainty on the foreign exchange market where US unhappiness with Japan's surplus and the lack of a clear Japanese strategy for reducing it have led to the rapid appreciation of the yen against the dollar.

Although details have not been revealed, on the first day of talks the US is believed to have urged Japan to accept its proposal to set a target of reducing its current account surplus to within 1.2 per cent of GDP development and increase the ratio of imports to GDP.

Japanese officials, however, are expected to have rejected

that on the grounds that the surplus and its import ratio are both the result of economic activity over which they do not, as members of a free market economy, have control.

The US and Japan are committed to agreeing ground rules and procedures for the talks before the Group of Seven summit early next month. However, the two sides are still far apart on their views of what lies behind Japan's high trade surplus.

The US believes the closed nature of Japan's markets is a main reason for the surplus and would like to set measurable indicators of progress to ensure that Japan opens its markets to imports.

Japan, on the other hand, insists that it has one of the most open markets in the world and emphasises the imbalances of investment and savings in the two countries as being a big factor behind its surplus.

It believes more long-term measures are needed on both sides to reduce its surplus with the rest of the world.

On the second day of the talks, the US and Japan were, however, able to agree on global co-operation in issues such as environmental protection and technology transfer.

The talks are expected to resume in Tokyo in the last week of this month.



Mondale faces testing time on Tokyo mission

MR Walter Mondale, the former US vice-president pictured above with President Bill Clinton, will arrive in Japan as US ambassador at a time when relations are strained by trade tensions and plagued by cultural misuses, AP reports from Tokyo. Mr Clinton formally proposed Mr Mondale as envoy last week.

The tenure of outgoing Ambassador Michael Arma-

cost, who arrived in 1989, has coincided with a distinct chilling of sentiment on both sides of the Pacific. Japanese critics dubbed Mr Armacost "Gaiatsu-sen" - Mr Foreign Pressure - for his frequent criticism of government policy.

Some believe Mr Mondale's appointment could set a new tone; the choice of a former vice-president as ambassador is seen as a sign of respect.

EC hopes Bonn row will fade

By Lionel Barber

THE European Commission is counting on quiet diplomacy to head off a damaging dispute with Germany after disclosure of a secret non-aggression pact on telecommunications between the Bonn government and the US.

EC officials believe the bilateral understanding forswearing trade sanctions was struck by the Economics Ministry without the knowledge of the German Foreign Ministry.

Sir Leon Brittan, EC commissioner for external economic relations, has asked Bonn for an explanation and Brussels officials yesterday described the German move as a direct challenge to the single European market, and said it could jeopardise EC unity in the Gatt trade talks.

"If the German government sticks to its position, it is a very serious matter," said a senior EC official, referring to the political damage ahead of next week's EC summit in Copenhagen.

The understanding on telecommunications and other service industries was reached between Mr Günter Rexrodt, federal economics minister, and Mr Mickey Kantor, US trade representative, apparently in the margins of this month's annual meeting of the Organisation of Economic Co-operation and Development.

Mr Rexrodt indicated that Germany would not pass into law

Article 29 of the EC's Utilities Directive which gives a 3 per cent price preference for EC companies.

Mr Rexrodt also pledged not to apply discriminatory trade sanctions against the US which earlier imposed a ban on bids from EC companies for \$18m worth of public procurement contracts, in protest against Article 29's restrictive provisions.

The German move challenges the decision by 12 EC foreign ministers to impose a \$15m sanctions package in retaliation against the US on June 8 in Luxembourg. It seems to contravene the Treaty of Rome which awards sole competence in trade policy to the European Commission.

Last Friday, the German Economics Ministry defended its moves, declaring that Germany was bound by a 1964 friendship treaty with the US which forbids trade discrimination. It also insisted that the Utilities Directive was drafted deliberately loosely, so that the EC "may apply Community preference" and that any agreement was "not withstanding existing commitments to third countries".

EC officials hope that Mr Rexrodt will come under pressure from colleagues, nervous about the political reaction.

Diplomats in Brussels noted, however, that the German government has become much more assertive in its defence of free trade principles recently.

Soldiers allow Haiti protest in support of Aristide

SOLDIERS allowed several thousand people in the western port of St Marc to march over the weekend in protest at the 1991 ousting of President Jean-Bertrand Aristide, AP reports from Port-au-Prince.

The march, an unusual act of tolerance, was one of several signs of growing support for the reinstatement

of Mr Aristide, Haiti's first democratically elected president. Pro-Aristide and anti-army demonstrations have routinely been crushed by soldiers since the coup.

In the capital, the presidents of Haiti's business associations met to draft a declaration urging Aristide's reinstatement.

The draft called on parliament to recognise the ousted president's legitimacy and to approve an Aristide-designated prime minister to head a new government. In exchange, it asked Aristide to grant a general amnesty to coup leaders and endorse all laws passed by parliament since he was ousted.

The army high command backs the proposal, according to a businessman close to senior officers.

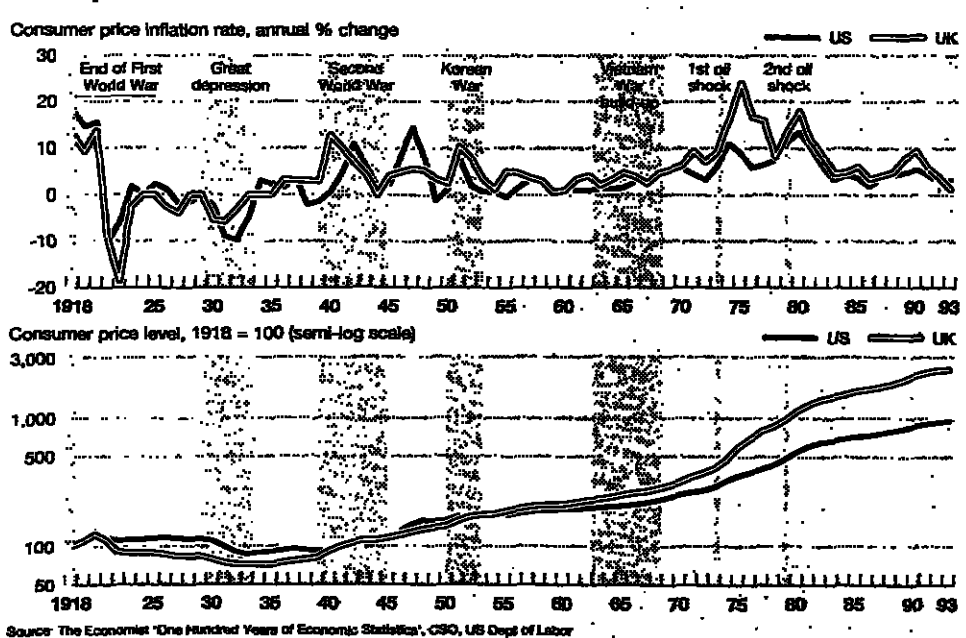
A consensus for Aristide's reinstatement is also building among legislators. The National Assembly was due to convene today to begin working out a solution.

The march was organised by Protes-

tant churches in the city 60 miles to the north of Port-au-Prince.

It has been the middle class, which supported the coup, that has grown increasingly frustrated with the failure of military-backed governments to find a way out of the crisis resulting from international economic sanctions imposed after the coup.

The ups and downs of inflation



Exaggerated rumours of inflation's death

IS inflation a thing of the past? "Yes" is the answer given by contemporary conventional wisdom. This sounds too good to be true. It probably is.

Indices of consumer prices suggest that the purchasing power of a 1933 pound had fallen to a mere 3p by 1993, while that of the dollar had declined to 9 cents. Ever since the Great Depression, money has been the creature of the state, which has discharged this responsibility with outstanding incompetence.

People go to jail for using fraudulent weights and measures. Governments try to get elected for doing the same thing to money. The reason they do so is that many voters benefit from the fraud. Unanticipated inflation creates unearned wealth and undeserved poverty. Politicians who

could not get away with voting for the implied transfers of income and wealth hope to do the same thing by stealth.

Inflation achieves these effects only when unanticipated. But a steady rate of inflation can hardly remain unanticipated forever. That is the main reason why the inflation of the 1950s and 1960s exploded in the 1970s. Since the 1940 price level was below that in 1918 for both the US and the UK, it is not surprising that society took time to adapt to rising prices. By 1970, however, it had. In the meantime, society itself changed. Once it had a middle class of renters. Now it has one of barely abashed property speculators.

Inflation peaked in the 1970s. Although it has been far lower in the 1980s, it has still not ceased. Yet, given the difficulty

of measuring quality improvement, it may not be all that far from the definition advanced by Mr Alan Greenspan, chairman of the Federal Reserve. "Price stability," he argued, "means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and household decisions."

Yet how optimistic should one be about the future? Some argue that competition from new suppliers will keep prices down. But this confuses changes in particular relative prices with changes in the overall price level. Others point to the low growth of credit and broad money everywhere that matters, except, amazingly, in Germany. This is a better argument, but sooner or later banks will have

restored their capital base and borrowers will have regained their courage, even though this may take several more years.

A more cogent argument for optimism is that the benefits of inflation to policymakers are now small, its victims are better able to protect themselves and its beneficiaries are also politically weaker. Pensioners, for example, are too important a lobby to ignore. Meanwhile, potential victims either lend short or demand high long-term nominal interest rates in relation to current inflation. Policymakers know they are permanently on trial and, lacking exchange controls, face immediate penalties if they are condemned.

Nevertheless, there are also four good reasons for fearing that high inflation might be back one day. First, managed

money has never delivered stable prices, or even stable low inflation, over a long period. Second, each year of relatively modest inflation lulls the public further, thereby increasing the redistributive effects of another burst of inflation. Third, there are plenty of debtors around who would adore higher prices. Finally, amongst those debtors are almost all major governments, whose accounts are bleeding red ink. The abolition of exchange controls may make it costly for a country to choose inflation on its own. But there is always the alternative of global inflation, no doubt euphemistically labelled "concerted inflation". Buyers of long-dated conventional bonds, remember and beware.

Martin Wolf

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES						■ JAPAN						■ GERMANY						■ FRANCE						■ ITALY						■ UNITED KINGDOM					
Consumer prices	Producer prices	Exports	Imports	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Exports	Imports	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Exports	Imports	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Exports	Imports	Unit labor costs	Real exchange rate	Consumer prices	Producer prices	Exports	Imports	Unit labor costs	Real exchange rate						
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0						
1986	101.8	96.8	102.2	96.4	83.7	101.2	95.5	101.4	103.3	119.2	99.9	97.5	103.8	103.7	107.0	102.5	97.2	104.5	101.5	102.9	106.1	100.2	104.8	102.7	103.6	103.4	104.3	107.7	104.5						
1987	105.6	100.7	108.8	96.7	74.9	101.2	90.5	103.1	100.5	123.3	100.1	95.1	108.0	106.9	110.5	108.8	102.8	111.1	104.3	101.8	115.5	103.2	111.6	105.5	104.9	107.7	108.3	116.3	105.9						
1988	109.9	103.2	108.9	96.1	71.4	102.2	92.3	107.8	96.2	130.0	101.4	98.2	113.0	106.7	109.9	112.6	106.4	115.4	105.5	99.8	124.2	113.1	125.8	112.3	107.4	121.8	118.0	122.2	102.2						
1989	115.2	106.5	110.0	98.9	75.0	104.9	94.2	114.0	96.1	122.1	104.2	99.3	117.3	107.7	108.4	116.5	107.1	120.6	110.0	102.9	131.8	117.8	134.7	118.9	106.5	130.3	128.0	130.1	122.2						
1990	121.5	113.8	113.8	100.9	71.8	108.2	95.7	120.1	98.2	106.2	107.0	101.0	123.8	110.2	110.3	118.5	107.1	120.6	110.0	102.9	131.8	117.8	134.7	118.9	106.5	130.3	128.0	130.1	122.2						
1991	126.1	116.3	117.3	103.5	71.3	111.6	98.9	124.2	101.8	116.2	110.7	103.4	131.8	114.7	108.4	120.2	105.8	125.8	114.3	101.3	140.3	121.7	147.9	131.3	107.7	141.2	133.0	132.2	102.8						
1992	130.4	117.7	120.1	103.1	70.6	113.9	95.8	125.6	110.6	118.7	115.1	104.8	129.1	110.5	111.8	122.0	104.0	130.3	114.3	104.7	147.7	124.0	155.8	131.3	107.7	146.4	138.0	132.2	102.8						
2nd qtr.1992	3.1	1.3	2.9	-0.5	71.2	2.6	-1.0	2.0	8.7	118.6	4.5	2.0	n.a.	3.8	108.7	2.7	-0.9	n.a.	2.8	108.0	5.5	2.0	6.0	4.7	105.6	4.2	3.8	5.9	1.2						
3rd qtr.1992	3.1	1.8	2.3	-0.1	68.1	2.0	-0.9	0.7	8.0	117.1	3.5	1.0	n.a.	8.1	111.2	2.1	-1.5	n.a.	2.8	108.0	5.2	1.9	3.7	4.7	104.4	3.8	3.5	6.2	2.0						
4th qtr.1992	3.0	1.8	2.0	-0.6	72.2	0.8	-1.2	-0.1	9.4	122.1	3.7	0.5	n.a.	8.2	113.3	2.2	-1.1	n.a.	2.8	108.2	5.0	3.4	5.7	4.7	104.4	3.0	3.4	5.7	-0.6						
1st qtr.1993	3.2	1.5	2.8	-1.7	74.3	1.2	-1.1	0.1	9.4	126.2	4.3	0.5	n.a.	11.3	113.3	2.1	-2.3	n.a.	100.1	106.1	4.3	2.2	2.9	4.7	105.6	1.8	3.7	4.7	-2.9						
June 1992	3.1	1.6	2.8	-0.3	70.0	2.5	-1.0	3.4	5.7	118.1	4.2	2.0	n.a.	4.3	109.0	3.0	n.a.	3.8	n.a.	103.6	5.4	2.1	4.7	n.a.	105.5	3.9	3.6	5.7	1.7						
July	3.2	1.7	1.7	-0.2	68.6	2.0	-0.6	2.0	7.8	116.8	3.3	1.1	n.a.	8.9	110.5	2.9	n.a.	n.a.	104.4	104.6	5.4	1.9	4.0	n.a.	108.2	3.7	3.6	6.2	2.9						
August	3.2	1.6	2.6	-0.4	67.7	1.8	-0.9	1.1	11.4	115.4	3.5	1.1	n.a.	11.1	111.1	2.7	n.a.	n.a.	104.6	104.6	5.2	1.9	3.5	n.a.	108.5	3.6	3.4	6.2	1.8						
September	3.0	1.8	2.5	0.3	68.1	2.2	-0.9	1.1	4.8	119.1	3.6	0.8	n.a.	4.3	112.0	2.6	n.a.	n.a.			5.4	1.9	3.5	n.a.	108.5	3.6	3.4	6.2	1.8						
October	3.2	1.7	1.7	-0.2	70.3	1.2	-1.1	1.2	6.6	121.8	3.7	0.5	n.a.	7.8	113.7	2.4	n.a.	n.a.			4.8	2.0	4.1	n.a.	108.8	3.6	3.4	5.7	1.1						
November	3.2	1.7	1.7	-0.2	70.3	1.2	-1.1	1.2	6.6	121.8	3.7	0.5	n.a.	7.8	113.7	2.4	n.a.	n.a.			4.8	2.0	4.1	n.a.	108.8	3.6	3.4	5.7	1.1						
December	2.9	1.8	2.5	-0.9	73.3	0.9	-1.2	1.0	10.3	122.1	3.0	0.7	0.5	6.8	113.0	2.4	n.a.	105.0	105.0	4.8	2.2	2.1	n.a.	108.8	3.6	3.4	5.7	1.1							
January 1993	3.3	1.8	3.4	-2.0	74.1	1.0	-1.1	-3.6	9.2	122.0	4.4	0.8	n.a.	11.5	120.2	3.5	n.a.	105.0	105.0	4.8	2.2	2.1	n.a.	108.8	3.6	3.4	5.7	1.1							
February	3.2	1.8	2.8	-1.6	74.7	1.0	-1.1	1.3	6.4	122.1	4.4	0.8	n.a.	11.5	120.2	3.5	n.a.	105.0	105.0	4.8	2.2	2.1	n.a.	108.8	3.6	3.4	5.7	1.1							
March	3.1	2.0	2.5	-1.4	74.0	1.2	-1.2	1.4	9.2	129.4	4.2	0.5	n.a.	12.1	113.4	2.4	n.a.	105.5	105.5	4.2	2.9	2.9	n.a.	108.5	3.6	3.4	5.7	1.1							
April	3.2	2.4	2.6		72.5	1.0				129.4	4.2	0.5	n.a.	12.1	113.4	2.4	n.a.	105.5	105.5	4.2	2.9	2.9	n.a.	108.5	3.6	3.4	5.7	1.1							
May					72.5	1.0				130.9	4.3	0.1	n.a.	11.3	111.8	2.1	n.a.	105.2	105.2	4.2	2.9	2.9	n.a.	108.5	3.6	3.4	5.7	1.1							
June					73.6	1.0				134.6	4.2	0.1	n.a.	11.8	111.8	2.1	n.a.	105.4	105.4	4.2	2.9	2.9	n.a.	108.6	3.6	3.4	5.7	1.1							

Çiller offers change from grey-suited political mainstream

Turkey's first woman PM must reforge party image

By John Murray Brown
in Ankara

MRS Tansu Çiller, a former economy minister, is to be predominantly Moslem Turkey's first woman prime minister after being elected leader of the largest party in parliament yesterday.

Mrs Çiller, a 47-year-old academic economist better known for the fact that her husband took her maiden name, won 574 votes in the True Path party's leadership race, just 11 short of an absolute majority - of those eligible to vote - on the first ballot. Interior minister İsmet Sezgin, with 320 votes,

Premier faces urgent policy agenda - from inflation to the rebelling Kurds

and education minister Köksal Toptan, with 212, then withdrew their candidacy. She will be sworn in today.

A welcome foil to the drab, grey-suited male politicians of Turkey's mainstream, Mrs Çiller will have to reforge the party's image in the wake of Mr Süleyman Demirel's move to the presidency, which led to yesterday's leadership contest.

Party strengths in parliament are finely balanced. Her first task will be to choose a cabinet in coalition with the junior partners Social Democratic Populists (SHP) after the announcement that Mr Erdal İnönü, SHP leader, would stand down in September.

Written off by many commentators when she was first elected to cabinet in 1991, Mrs Çiller emerged a surprising winner, apparently convincing

delegates that she offered the better chance for re-election, rather than the respected but uninspiring Mr Sezgin, her main challenger.

Mrs Çiller faces the difficult task of rebuilding the party ahead of vital municipal elections next year. A staunch European who speaks good English and German, Mrs Çiller is likely to accelerate Turkey's economic convergence with the European Community. She is expected to speed up the privatisation of state enterprises, which lose an estimated \$2bn (£1.2bn) a year.

Her anti-inflation policy has proven more controversial and brought her near to open conflict with Mr Rüştü Sarıoğlu, the central bank governor. Mr Sarıoğlu's future must now be in doubt.

Mrs Çiller has cut a curious figure in her Chanel suits assiduously courting the party's predominantly Moslem constituents with claims that the call to prayer makes her "feel good".

Addressing the congress of 1,169 DYP delegates, Mrs Çiller promised yesterday she would visit Germany in the wake of right-wing attacks on Turkish families in a number of German cities - another gesture to rural supporters.

She faces an urgent policy agenda - from annual inflation, which is running at more than 60 per cent, and the bloody Kurdish rebellion on the domestic front to an arc of foreign policy concerns from the Caucasus, north Iraq and the Balkans.

During 20 months as chief economics minister she has overseen a radical trade reform, moving the country back on track for full customs union with the European Community in 1995. Following legislative changes the stock exchange has enjoyed a

renewed lease of life. Before the vote this weekend, the index had reached a record.

She has had mixed fortunes in her anti-inflation policy centred on restructuring the government's domestic debt, which has put downward pressure on interest rates. Debt service, at about 40 per cent of recurrent budget expenditures, fuelled the public sector's borrowing requirement, running at close to 12 per cent of gross national product.

Mrs Çiller first came to attention when commissioned

by the Istanbul Businessmen's Association to produce a report on Turkey's debt during the former Motherland party administration. Her findings were so critical it brought the association into direct conflict with then prime minister, Mr Turgut Özal.

She will want to keep her distance from Mr Demirel, whose accession to the presidency created this leadership race.

Mr Demirel for his part will want to counter the impression that he opposed Mrs Çiller's candidacy.



Tansu Çiller: will want to keep distance from Demirel

THE US is to sell helicopters to Turkey and transfer 50 A-10 tank buster aircraft in a \$356m (£231.1m) package unveiled in Ankara over the weekend by Mr Warren Christopher, US secretary of state (pictured left with his Turkish counterpart, Mr Hikmet Çetin). The deal, which includes the purchase of five Super-Cobra

attack helicopters, gets around a US congressional move last year to cut US military aid to Turkey and Greece and Portugal, other southern flank NATO members, under which grants were changed to credits, writes John Murray Brown.

Until this year Turkey was the third largest recipient of US military aid after

Israel and Egypt, receiving about \$500m annually under the US foreign military sales programme, most of which was used in Turkey's F-16 fighter aircraft manufacturing project.

Mr Christopher said the Clinton administration would seek congressional approval for the latest sales.

Mediators step up Bosnian peace initiative

LORD Owen and Mr Thorvald Stoltenberg, the international mediators, met Bosnian President Alija Izetbegovic in Geneva yesterday as part of renewed diplomatic efforts to end the slaughter in the former Yugoslav republic, agencies report.

The talks coincided with reports that Serb rockets flattened a temporary hospital, killing more than 50 patients and medical staff, in the blockaded east Bosnian Moslem enclave of Gorazde.

The death toll, if independently confirmed, would be one of the worst in a single incident in the 14-month war between Bosnia's Moslem, Croat and Serb communities.

Officials of the Moslem-led Bosnian government said it had urged Mr Izetbegovic to return home immediately from Geneva to underline the gravity of the crisis in the enclave.

The talks, a day after the mediators met Croat leaders, focused on the growing conflict between the Moslem-led government and its former Croat allies.

Lord Owen said that one of the main aims of the talks was to alleviate fighting between Moslems and Croats "but the essential task is still the overall peace settlement".

Shortly after the discussions, Moslem, Croat and Serb members of Bosnia's presidency gathered at the UN's European headquarters for a special session to discuss temporary power-sharing arrangements.

Lord Owen wanted the presidency - comprising President Izetbegovic and two other Moslem representatives, two Croats and two Serbs - to consider delegating more authority to a so-called co-ordinating body as a prelude to an interim government.

Late yesterday Sarajevo radio, monitored by the BBC, said the presidency had ordered an immediate end to

fighting between its forces and Croats.

The radio quoted the presidency order as saying: "All conflicts between units of the army of Bosnia-Herzegovina and the formations of the Croatian defence council must stop immediately." It added that Moslem-led government army commander Rasim Delic and Bosnian Croat army chief Milivoj Petkovic would be responsible for implementing the truce.

UN commanders called a meeting of Serb, Croat and Moslem army chiefs to take place at Sarajevo airport tomorrow to discuss a lasting ceasefire.

Lord Owen and Mr Stoltenberg hope to gather leaders of all the Bosnian factions, as well as Serb President Slobodan Milosevic and Croatian President Franjo Tudjman, for talks in Geneva on Wednesday.

From the battlefield, Sarajevo's Moslem-controlled radio said there were no survivors of the direct hit on the temporary hospital building in Gorazde and added: "Pieces of human bodies are mixed with cement, broken boards, bricks and mortar."

Fifteen people were reported killed yesterday before the hospital was hit.

About 60,000 inhabitants and refugees are trapped in Gorazde, which Serbs are attacking in defiance of its designation as a UN safe area.

Meanwhile, Sarajevo had one of its worst bouts of shelling in weeks as gunners around the city ignored a warning by the commander of UN troops in Bosnia that the country was sliding towards anarchy.

On Saturday General Philippe Morillon threatened to pull out the 9,000-strong UN Protection Force under his command if local political and military leaders did not commit themselves firmly to the faltering peace process.

General Motors warns VW over Spanish plant

By Christopher Parkes
in Frankfurt

GENERAL MOTORS of the US has warned Volkswagen of further legal action if it goes ahead with plans for a revolutionary ultra-low-cost car production plant in Spain.

A letter delivered at the weekend to Mr Ferdinand Piëch, chairman of the German group, said a "similar" project was prepared by Mr José Ignacio Lopez de Arriortua while he was still employed by General Motors.

The warning was sent as Mr Lopez prepared to hold his first press conferences since he defected from the US group to VW in March. In two appearances today, in Hanover and later in Madrid, Mr Lopez is expected to announce that Volkswagen will build a new super-lean production plant in his Basque homeland, where cars can be built in less than half the time needed in the average European factory.

Last week Seat, VW's Spanish subsidiary, said "some especially interesting" propos-

als had been put forward from regional authorities.

The GM letter represents a further step in the US group's campaign against Mr Lopez, which is focused on charges, now under investigation in Germany, that he and several of his associates took top secret industrial, model and marketing plans with them when they went to VW.

While still at GM, Mr Lopez shrouded his proposals for the so-called Plateau 6 works in secrecy. Numbered copies of all plans, including draft factory drawings and car model designs, are still in the possession of the US group's top executives.

Mr Lopez campaigned fiercely at GM for his Plateau 6 plant to be built in his homeland, where he retains strong political connections. The US group's refusal to comply, and its preference for any future investments to be made in eastern Europe where costs are below those in the European Community, are understood to be the main reasons for his

stormy departure from Detroit in March.

The Plateau 6 concept is aimed at improving production efficiency beyond the levels achieved by Japanese manufacturers. The proposals include plans for component suppliers to ship complete modules rather than single parts into the works where their employees would install them in vehicles. Other concepts include a wide range of differential pay rates for car assembly staff, breaking with the standard practice of paying all line operators the same basic wage.

Last month GM suffered its first important loss in its legal battle against VW.

An initial attempt to prevent seven former employees of GM and Adam Opel, the US group's German subsidiary, from working for VW for 12 months was thrown out by a Frankfurt court.

The seven included former top members of Mr Lopez's buying team at GM, who left the US shortly after their boss.

Tough Yeltsin line on Kuriles

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin has told Japanese hosts of next month's Group of Seven summit not to expect any concessions on the four Kurile Islands they want back from Russia.

In comments which are likely to be seen by Tokyo as insulting, he said on Saturday he felt "a certain discomfort" as there would be a meeting with Mr Kiichi Miyazawa, Japan's prime minister, and the question of the islands would come up. "I will not be able to tell him anything new," Mr Yeltsin, who is expected to discuss aid for Russian economic reforms with G7 leaders in Tokyo, is also likely to touch on bilateral issues in talks with Mr Miyazawa.

The trip next month follows the last-minute cancellation of a bilateral visit last autumn and confusing signals about whether he planned a separate visit after the summit.

It has also emerged that the shadowy security council, which last year took the decision to cancel the presidential visit to Tokyo, is to be headed by Marshal Yevgeny Shaposh-

nikov, previously head of the Commonwealth of Independent States' unified command.

The council is a committee of senior officials that deals with foreign and some domestic affairs, in addition to security.

Mr Yeltsin said he had appointed the marshal without consulting other commonwealth states because their plans to set up their own armies meant the unified command no longer had "much weight". The marshal was chosen for his military background and because Mr Yeltsin had "absolute faith" in him, unlike his predecessor, Mr Yuri Skokov, sacked for disloyalty.

Dealing with diplomacy closer to home, Mr Yeltsin said he would meet Ukrainian President Leonid Kravchuk on Thursday to discuss problems of fuel supplies to Ukraine and the row over the Black Sea Fleet. "We had to turn the tap off [energy supplies], then immediately there was this fuss over the Black Sea Fleet," he said. Moscow could not go on "giving away energy" to Ukrainian enterprises which were not paying their bills.

Azerbaijan turns to old guard

MR Geidar Aliyev, former Communist party boss in Azerbaijan, was set yesterday to sweep back into power on the coat-tails of nationalist democracy's failings, writes Leyla Boulton.

The protégé of former Kremlin leader Leonid Brezhnev was offered the powerful post of parliamentary chairman after Mr Isa Gambarov, one of the leaders of the anti-Communist Popular Front, said he was resigning for the sake of "civic accord".

Mr Aliyev, 70, was invited back to the capital Baku after an uprising launched by one of his supporters in Gyandzha, Azerbaijan's second largest city. The leader of the insurrection, Mr Suret Huseynov, who is holding government officials hostage, has called for the resignation of President Abulfaz Elchibey, who sacked him from his military command in the disputed Nagorno-Karabakh region earlier this year.

Meanwhile, Azerbaijan switches fully to its own currency - the manat - tomorrow, according to a presidential decree.

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NEWS: UK

Tory manifesto promises could become casualties of battle to control state borrowing

Cabinet rifts open on tax and spending

By Ralph Atkins

CABINET rifts over government tax and spending policies opened yesterday as Mr Michael Heseltine raised the spectre of Tory manifesto promises becoming casualties of the battle to control public borrowing.

As senior Tories sought to brush off further falls in opinion polls, the trade and industry secretary clashed with right-wing Cabinet ministers who made clear their opposition to renegeing on the Conservative's 1992 election pledge not to increase income tax.

The row preceded Thursday's public spending Cabinet when Mr Kenneth Clarke,

chancellor, will tell his colleagues that public spending cannot breach the £253.6bn ceiling set for the 1994-95 financial year. Mr Clarke will tomorrow break with recent tradition and use the Mansion House speech in the City - his first speech as chancellor - for a wide-ranging review of economic policy.

A damaging split over tax and spending priorities, likely to continue over the summer as the Treasury struggles to curb departmental budgets, will add to the difficulties Mr John Major faces in restoring confidence in his leadership.

In an interview yesterday, the prime minister said he was "philosophically attracted to

the lowest possible level of taxation." But he was not prepared to prejudice November's budget.

Mr Major faces the ignominy today of a review by the right-wing 92 group of Tory backbenchers of Conservative party prospects. Their message, although couched in language supportive of the prime minister, is expected to make plain that in their eyes he is on probation.

Senior figures on the Tory right confirmed yesterday that Mr Clarke, although pro-European, could win their support in a future Conservative leadership election if he successfully cuts state spending rather than increasing taxes.

Most Tory MPs believe, however, that a leadership challenge is highly unlikely this year. But few - including the prime minister himself in his Mail on Sunday newspaper interview - are prepared to rule out a contest before the general election.

An earlier test will be the Christchurch by-election, where the Tories are defending a 23,000 majority. Late July, just before the Commons' rises for the summer recess, emerged at the weekend as the most likely date.

Speaking on BBC television, Mr Heseltine expected "turbulence ahead" for the government and predicted the economy, schools testing and policy

on Europe, "are going to cause us considerable difficulties".

He said that Britain was living "beyond its means" with "an infrastructure of entitlement and opportunity" way beyond the nation's ability to pay. Asked about income tax rises, Mr Heseltine said the chancellor had to "re-visit" all options for tackling the deficit, but added: "You will find in practically every case that there is a manifesto commitment which blocks off the options, and if you then say 'fine, we've made a manifesto commitment, all the options are blocked off, well I tell you it won't be a £50bn deficit we're dealing with next year, it will be a bigger one.'"

Terror attacks highlight problems for industry

Chris Tighe and Deborah Hargreaves on plant security

THE IRA bomb attacks last week in north-east England on a Gateshead gasholder and an Esso petrol and oil terminal in North Shields have highlighted the security problems terrorism poses for the owners of industrial installations.

Such complexes offer terrorists an economic target, presenting the opportunity for dramatic, publicity-generating damage and serious disruption to business interests.

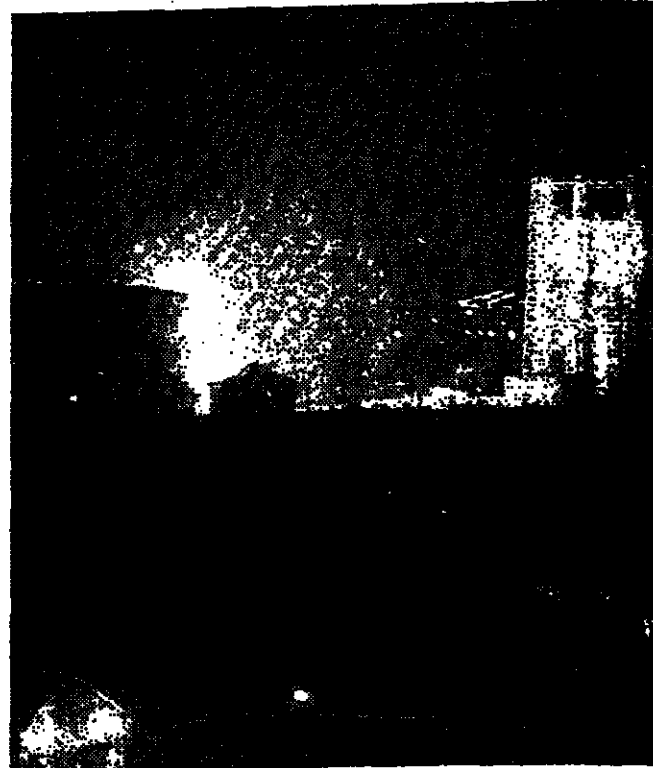
After last Wednesday's explosion and fire, caused by an IRA attack at Tyneside's largest gasholder complex, Mr James Marris, chairman of British Gas Northern, admitted it was impossible to achieve total security at such a compound. "I don't think we can stop anybody getting into any of these sites. A determined intruder can get in almost anywhere. The main thing is to detect it quickly enough to do something about it."

Esso, whose North Shields terminal has been attacked by the IRA twice in seven weeks, refused to discuss its security arrangements at the site, apart from confirming that it had round-the-clock cover.

Esso stressing the vast acreage of land covered by installations such as oil refineries and petrochemical complexes, endorsed Mr Marris' comments: "He is expressing the views of everybody who is involved in running industrial complexes which have an element of risk about their operations or products."

Lessons should be learned and action taken "to make sure either it can't happen again or to make sure the risk is managed more tightly", said Esso.

Most oil companies employ former police and army officers as security advisers and many have contracted out their security. While many companies are reluctant to talk about their arrangements, British



Fire follows the bomb explosion at a Gateshead gasholder last week: such installations offer terrorists an economic target

Petroleum said the recent bombs had led to the tightening of security.

The three gasholders on the Gateshead site attacked last Wednesday have a total capacity of 7.7m cu ft of gas. The compound is near homes and 400 people were evacuated for five hours following the explosion and fire.

But Mr Marris insisted that gasholders, which resisted wartime bombing, were "inherently safe structures". The gas in the holders would not explode unless it was mixed with air and the structure made that unlikely to happen.

British Gas has fallen victim to four IRA bombs - the recent Warrington bombing and two sites in London in the 1980s. "It looks pretty dramatic, which is why they target them, but the chances of someone being injured are pretty slim," the company said.

North-east England's good road infrastructure is normally

cited as an attraction for inward investors but it is becoming evident that it is also a bonus for terrorists. Northumbria police last week noted the proximity to fast roads of the sites on Tyneside targeted by the IRA.

The police declined to comment on speculation that an IRA cell might have been set up in the region. Newcastle University politics lecturer, Mr David George, a terrorism specialist, believes that targeting north-east England, along with the north-west and London, helps the IRA promote its image of omnipotence.

"They want to show the IRA has a very long arm," he said. One of the notable features of the region, which has 350 foreign-owned plants, is its strength in securing inward investment.

But Mr George warned management at these workplaces, as well as the operators of high-risk sites handling volatile substances, to beware of the IRA.

Nadir acts against his trustee

By Andrew Jack

MR ASIL NADIR, the fugitive businessman, has attempted to revoke the power of attorney which he gave to his trustee in bankruptcy.

Mr Neil Cooper, the trustee from accountants Robson Rhodes, confirmed yesterday that he had received a letter in Turkish and English signed by Mr Nadir on Friday. The letter withdrew Mr Cooper's right to act on behalf of Mr Nadir.

If Mr Nadir's revocation is accepted, it will further threaten attempts by the trustee to keep control of assets in Turkey on behalf of creditors, and could also prove politically embarrassing for the Turkish government, which has been in talks with the Serious Fraud Office and the British authorities about the former head of Polly Peck International.

The action comes just in advance of Tuesday's preliminary hearing at the Old Bailey on Mr Nadir's case, at which lawyers representing Mr Cooper will claim rights to £2m of Mr Nadir's £3.3m bail money which he forfeited by fleeing to northern Cyprus last month.

Bank bids for state computer service

By Robert Peston, Banking Editor

BARCLAYS, the biggest UK bank, is on the short list of bidders to buy DVOIT, the organisation that provides computer services to the Department of Transport and its executive agencies.

There are four other bidders on the short list: EDS-Scicon, the information technology subsidiary of General Motors of the US; Computing Sciences Corporation of the US; Hoskyns, the UK computing services group; and a consortium combining DVOIT managers and IBM of the US.

DVOIT's largest customer is

the Driver and Vehicle Licensing Agency, which collects vehicle excise duty and licences drivers and vehicles.

Barclays said it wanted to exploit the expertise it has acquired over the past 30 years running one of the country's biggest computer systems, which provides money transmission, cheque clearing and settlement services.

Its bid is part of a strategy to reduce its dependence on earnings from traditional banking activities. In common with many banks, Barclays expects only modest growth in sales of banking services in the next few years. No other UK clearing bank has gone this far in

seeking ways to boost earnings from their complex computer systems.

A year ago Barclays set up a trading business, Barclays Computer Operations (BCO), which runs the bank's computer operations and also competes to manage other companies' computers, a service known as Facilities Management. It has since made an abortive bid to manage the Inland Revenue's computer operations, which are being contracted out to the private sector.

The bank said that in the past year BCO had acquired 10 clients in addition to working for the bank. It said these

included some substantial UK companies, though it declined to name them.

It also refused to comment on its bid for DVOIT, because it has signed a confidentiality agreement with the government. The question remains of whether it would want to employ all of DVOIT's staff or keep its mainframe computers.

DVOIT, based in Swansea, has 500 employees and three mainframe computers, which can be accessed from 4,000 terminals in 200 offices throughout the UK. The Department of Transport said it hoped to complete the privatisation of DVOIT by the end of the year.

Reprieved pits under threat over prices

By Michael Smith

DOUBTS about the future of 12 reprieved coal mines have increased following the insistence by the two main electricity generators that British Coal reduce prices to below world levels to reflect stocking costs.

"There is no reason why our shareholders should have to pay stocking costs for coal we do not need immediately," said one generator executive.

The hardline approach by

National Power and PowerGen will anger ministers because the government has said it will subsidise output from the 12 to meet the difference between production costs and sale prices until privatisation within three years.

Unless British Coal can increase sales by 15m tonnes a year it is likely to have to start closing the pits, which were reprieved less than two months ago after a public outcry over plans for a further sharp con-

traction of the mining industry.

The generators' case for lower prices is based on their argument that anything they buy will have to be added to stockpiles already big enough to meet the needs of power stations for six months.

British Coal has already negotiated to sell 40m tonnes of coal to the generators this year and 30m in each of the next four years. These sales will, however, provide a mar-

ket for only the 19 pits which British Coal considers its core mines.

The company has already offered to cut the price to between 80p and 85p a gigajoule - a measure of thermal efficiency - less than two-thirds the price in the core contracts.

But that figure compares with a price of about 86p for coal traded in Rotterdam, where most coal imports to Europe are bought and sold.

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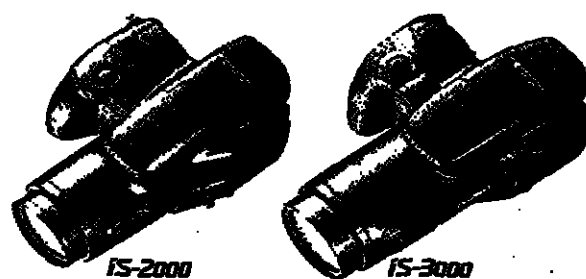
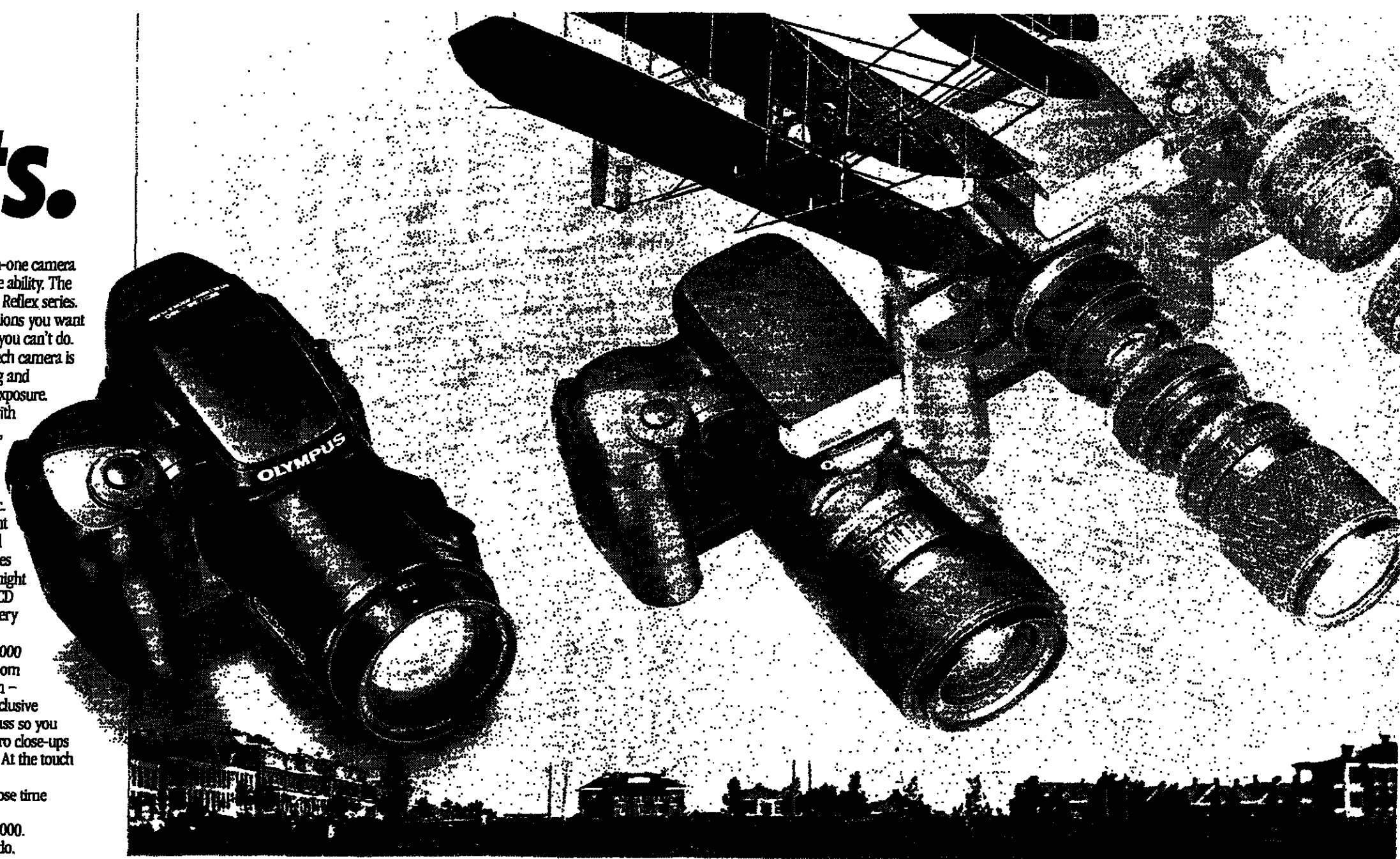
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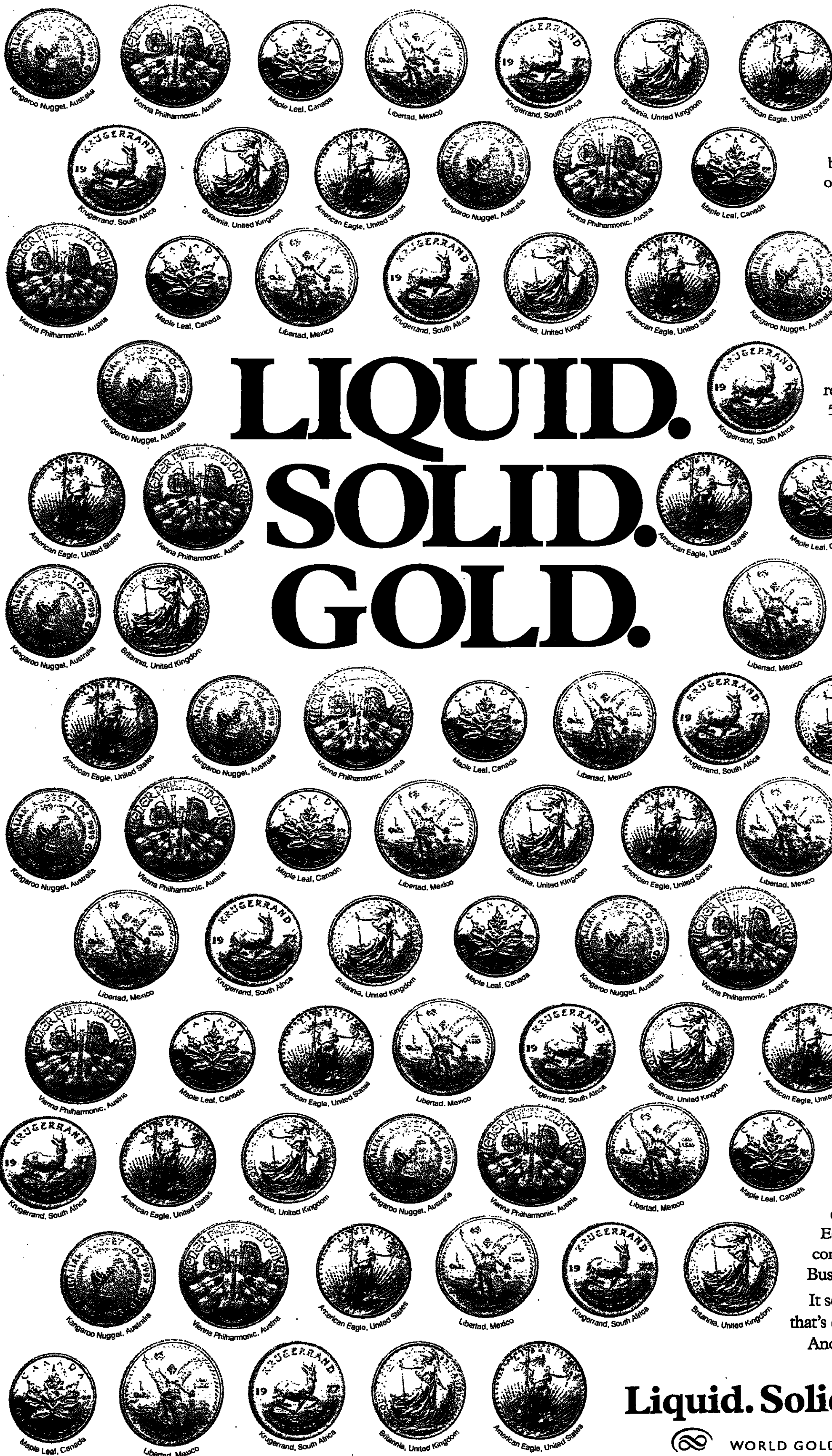
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WORLD GOLD COUNCIL

Staff surveys are increasingly popular, but can be fraught with pitfalls, writes Diane Summers

The right attitude

Royal Mail's 180,000 employees now know officially that they are a pretty miserable bunch. According to an internal employee attitude survey fed back to them this month, a record 70 per cent of them are unhappy at work.

Uncertainty over privatisation, reorganisation of the service, new technology and worries over job security – not to mention a 1.5 per cent ceiling on public sector pay this year – all contribute to rock-bottom morale.

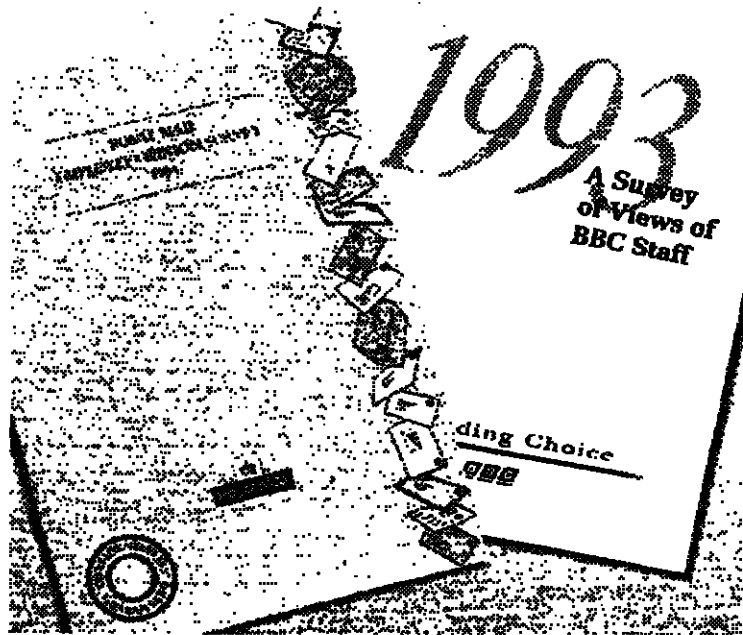
Managers at Royal Mail, in common with those at British Telecom, which has had similar upheavals and similar employee attitude survey results, profess not to be surprised by the findings. At the same time, there is within both organisations a profound level of scepticism among staff about whether the results of the surveys will lead to any changes: questionnaire answers show that at BT only 16 per cent of staff were able to think of any improvements resulting from the previous year's survey; at Royal Mail, around half thought management would not act on the findings.

But in spite of this widespread scepticism and the predictability, in many cases, of results, the employee attitude survey industry has never been healthier. The BBC is one of the most recent additions to swell the ranks of those organisations now sending out employee attitude questionnaires. Other companies include IBM, Abbey National, Digital Equipment and Hoechst UK. A flourishing band of consultants and survey companies has grown up to service this fashionable growth area.

While companies such as IBM, where staff surveys have been conducted since 1963, make conscientious attempts to translate findings into action, other organisations may be wasting money on research – perhaps £20,000 a shot for a modest project in a medium-sized organisation – that merely raises expectations and is then shelved.

"Let's do an employee attitude survey" appears to be a reflex response by companies to a range of perceived problems, according to Bill Quirke, a consultant with London-based Synopsis Communication.

The first mistake companies make is to become immersed in



technical matters such as questionnaire design, without being clear what the survey is for and what will be done with the results.

Typically, the decision to carry out an employee attitude survey will spring from a fundamental disagreement at board level about what is going on inside the company, he says: "One director will

say that people are unhappy and are complaining – they don't understand the mission, they don't understand the restructuring. Another will say it's not that bad. What he really means is 'to hell with whether they're happy or not, we're in a recession'."

At that point the decision is made to bring in a third party to establish

the facts by conducting a survey. And so the process begins, based, essentially, on the kind of debate that is never going to get anywhere – how far companies should be "nice" to their employees.

The idea of worker happiness comes from an outdated, hierarchical view of work, claims Quirke. "People at the top tell people at the bottom to go and do the job, and then you check every now and then whether the natives are restless," he says. Indeed, employees may be fat and happy while their company is failing to adapt to new markets, processes or customer requirements, he adds.

Companies need a more hard-headed approach to what they are trying to find out, and why, he says. "People need to know where the organisation is going, they need to understand their local objectives and how they fit in, and they need to get regular feedback. Those are the things that should be tested."

Quality programmes, in particular, mean that the common existing model of communication – the person at the top shouts through a megaphone to the person at the bottom – is no longer appropriate.

The next commonly made mistake is to become obsessed with scores and comparisons with other companies, rather than looking at what the results mean and how far they fit in with the business needs of the organisation. Much of the time, admits Quirke, it is possible for a consultant to construct a report on the findings before carrying out the research and without knowing anything about the client's industry.

The Norm Report, as he calls it, would reach the following conclusions on communications, for example: most people prefer to hear things through their immediate boss; people are most interested in information about their own immediate work unit; managers want more information but, at the same time, complain about being deluged with paper; the grapevine is the most used, though least preferred, way of finding out about things.

There are even national norms for employee attitude survey scores, according to the International Survey Research organisation: Swiss employees are the most satisfied, followed by the Dutch. The British are the most dissatisfied, identifying least with their organisations and feeling most insecure in their jobs.

The next stage within most organisations, once the predictably uncomfortable results have been collected, is for collective gloom to set in. For some companies, the first time such an exercise is conducted will also be the last – even the results of a pilot may warn senior managers off the idea.

Employee attitude survey checklist

- Gain commitment of senior management, clarify objectives and define areas where company prepared to take action.
- Decide between census of employees – probably paper-based – and random sample – maybe face-to-face interviews.
- Conduct pilot.
- Design questionnaire – needs experienced help.
- Tell employees what is being done: the more internal publicity, the greater the chances of success.
- Guarantee confidentiality.
- Consider measures to improve response rate, for example, by holding supervised completion sessions in company time.
- If the survey involves face-to-face interviews, conduct with one or two employees at a time. Avoid group discussions – difficult to maintain confidentiality in groups and to enable everyone to have a say.
- Produce final report. Distill evidence, reach conclusions and put forward recommendations. Present to top management.
- Report back to employees with summary of main findings.
- Individual or group should be made responsible for action following survey findings; monitor progress.

Source: Institute of Personnel Management

A mindset to escape from the tiger

Bryan Webster offers an unconventional view

We need to face the unpalatable fact that our national management mindset is affecting the whole of our national performance. That mindset projects the manager as troubleshooter, problem-solver, dynamic decision-maker. It is responsible for our love of organisation charts and job descriptions for particular managers, so that we know who to blame if things go wrong.

It is underpinned by our ubiquitous appraisal and by our performance-related pay schemes.

Above all, there is our touching belief that we can improve our businesses by training managers – the Charter Initiative, MBAs and extremely expensive Executive Development Programmes.

While we are wasting our time and energy on such a management model they have discovered something different elsewhere. The Japanese, for instance, have demonstrated that companies are not collections of managers, nor even of functions; they are combinations of interacting processes.

If these processes are understood, refined, controlled and continuously improved, goes their view, the organisation will achieve its goals.

So what can we learn? If our current management mindset is dragging us down, what will lift us up? The emerging management is organic rather than mechanical; rather than attempting to manipulate the ends, top management seeks to cultivate the capability of the company. We can think of this capability in three ways.

The first is process capability. Quality of product and service is achieved by controlling the interacting productive, business and management processes. Nissan has so developed process control that improvements of 0.6 of a second can now be picked up and implemented.

The second element is organisational capability. It consists of obvious things such as, buildings, finance, technology, systems and people,

and not so obvious, such as employee goodwill and behaviour, credibility with customers, market awareness, the ability of the organisation to learn and, of

course, the directing of all these towards a common goal (management). Organisational capability is what the Japanese are preserving when they hold on to their skilled people in a downturn, and what brings them running out of it.

The third element is personal capability. Everyone, everywhere must keep their face turned to the real world, and keep learning how to prosper in it.

In particular it means top management encouraging the awkward questions that challenge their own self satisfaction and so lead them to search for new learning and new answers.

The world's best companies are already well into the process capability method of management. Asea Brown Boveri, for instance, has cut its lead times by an average of 21 per cent and hopes to take them down to 50 per cent by the end of this year.

To achieve this Peter Barnevik, ABB's chief executive, has changed the role of his managers from "a combination of policemen and errand boys; now they act as support for the workers". And the workers are working at the processes.

This way of managing will become common in the next 10-20 years and those who wish to cling to the manager-dominated model should pay heed to the parable of the tiger, which is now fast becoming part of management folklore.

It tells of two tigers, who find themselves facing a man-eating tiger. One pulls out a pair of trainers and puts them on. "You must be joking," says his companion, "you can't outrun a tiger." "No," he replies, "but I can outrun you."

I first heard the story six years ago, from a chief executive in one of Britain's top companies. He thought it was funny.

But in those six years his company lost its profitability, much of its market and two-thirds of its workforce. Finally, it dispensed with his services.

He was nearer the tiger than he thought. The author is an independent management counsellor.

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COMPANY NOTICES

CONSTRUCTION CONTRACTS

London airport scheme

Blackpool leisure project

BOVIS PROGRAM MANAGEMENT (BPM) is providing construction management and design expertise on the building of BAA's new 400,000 sq ft Terminal 1 airside development at Heathrow.

BPM, a division of the P&O company Bovis Construction, and architects Richard Rogers Partnership have been brought together for the first time in this way to create the facility which is due for a phased completion by December 1995.

There are three different aspects to the project. A new £20m purpose-built flight connections centre aims to attract transfer passengers by offering tailor-made services under one roof.

An enlarged international departure lounge at Terminal 1 will enable passengers to take advantage of catering areas and 56,000 sq ft of retail space. The lounge will have seating accommodation for 1,400 and first class and business class airline lounges.

The third improvement involves the replacement of the baggage handling system with fully automated equipment which will include facilities for the handling and storage of transfer baggage. This will allow smooth handover from one airline to another and one terminal to another.

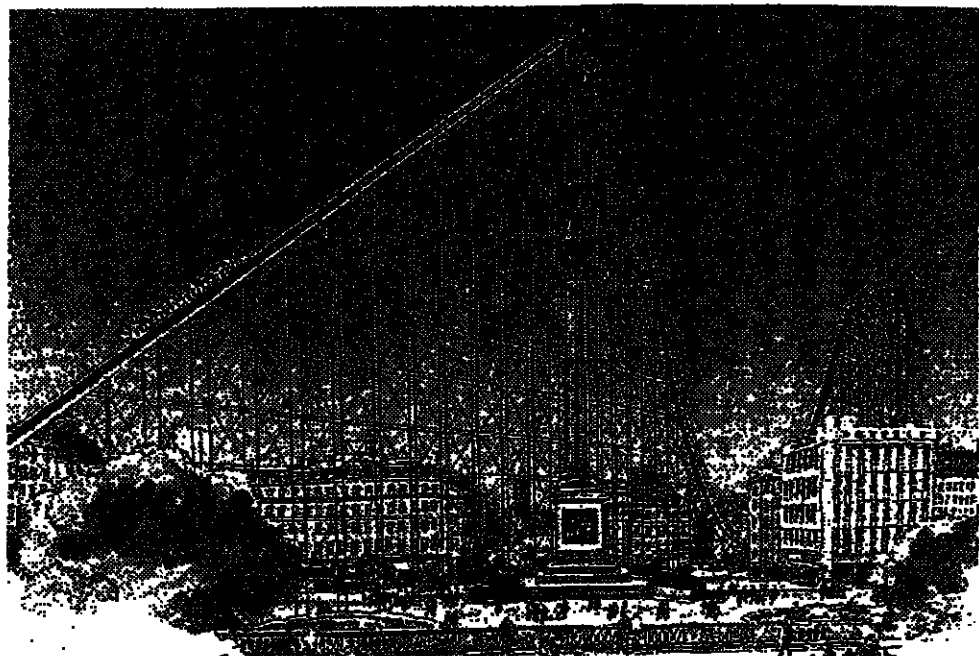
US highway

EVERED BARDON has been awarded a US\$3.9m (£5.77m) contract to resurface an eight-mile section of Interstate 95 in Massachusetts.

Bardon Trimount will be prime contractor on the project, for which it will be supplying 140,000 tons of coated stone from its nearby coating plants.

British Library

SIR ROBERT McALPINE has been awarded the £4.3m contract for the construction of the structural frame on the next phase of the new British Library in St Pancras, London, for the Department of National Heritage. The contract is programmed for completion in 47 weeks.



An artist's impression of the proposed rollercoaster, superimposed over Nelson's Column

WATSON STEEL has won a £5.7m contract to supply steel for what is believed to be the world's highest rollercoaster, due to be built in Blackpool, Lancashire.

Working for Blackpool Pleasure Beach, Watson will supply and erect a total of 2,000 tonnes of structural steel. Also to be installed under the contract is a further 250 tonnes of tubular

steel running track.

Fabrication will take place at Watson's Bolton factory during the summer months, with erection scheduled for a 10-week period commencing at the beginning of November, during BPB's close season. The steel work is to be erected on foundations completed at the beginning of the year by Shepherd Construction.

At its highest point, the rollercoaster will stand 235ft high, 65ft taller than London's Nelson's Column.

From here, the drop has an angle of 65 degrees, which will allow cars to reach speeds of 85mph. The rollercoaster will run around BPB's 42-acre promenade site for just over a mile, and will be above all the existing rides.

Building distribution centres

TAYLOR WOODROW DESIGN BUILD is making a name for itself in the frozen and chilled distribution centre/warehouse market with three contracts worth over £30m in total.

The latest, for Iceland Frozen Foods, is the construction of an environmentally friendly building covering more than 25,000 sq metres.

Situated on 20 acres of former British Rail land on the

west side of Swindon, off the Wootton Bassett Road, the centre will be divided into sections for frozen, chilled and ambient storage.

At Minworth in Birmingham, Taylor Woodrow Design Build is undertaking the design and construction of Cadbury's new automated chilled storage warehouse.

Covering over 35,000 sq metres the warehouse will

accommodate 15 km of racking standing 15 metres high and be split into three units.

Taylor Woodrow Design Build's third contract was the recently completed fruit terminal at Southampton Docks.

Constructed for Associated British Ports and used by Geest, the new terminal covers 9,500 sq metres and has storage facilities capable of holding 27m bananas.

Land reclamation at Hong Kong bay

KIER HONG KONG, part of Kier International, has won a £25.5m reclamation and roadworks contract in Hong Kong's Belcher Bay let by the highways department of the Hong Kong government.

The project includes recla-

mation of 10.3 hectares of land, dredging and disposal of 1.2m cu metres of marine mud and filling with approximately 1.8m cu metres of marine sand.

Also included in the contract is the construction of about 812 metres of blockwall sea wall

and approximately 122 metres of piled sea wall.

Roadworks comprise 14,000 sq metres of new roads including four new signalised junctions together with associated drainage and landscaping works.

PEOPLE

Hurd adviser crosses fence

The discreet world of the political lobbyists has recruited a fresh disciple. Edward Bickham, one of Foreign Secretary Douglas Hurd's most trusted advisers, has decided to cross the parliamentary divide and join Hill and Knowlton, one of the top three public affairs consultancies.

Bickham, 36, replaces Tom McNally, the former Labour MP and adviser to Jim Callaghan, who left in April to head the lobbying arm of Shandwick. Bickham joins early next month as managing director, public affairs and corporate policy.

Although Bickham's title suggests his brief will be somewhat wider than an old political hand like McNally, his arrival at Hill and Knowlton completes a series of high-profile changes at the top of an industry where success often depends on getting a client's ideas heard in the right places. At the end of 1992, Des Wilson, former campaign manager of



the Liberal Democrats, joined Burston-Marsteller, the other big player. It has long been rumoured that Hurd plans to quit politics before the next election. But Bickham, who has not ruled out standing for Parliament at

some stage, stresses that his decision to leave Hurd's side does not mean his old boss will also head for the private sector shortly. Having been special adviser to the Home Secretary and in Northern Ireland, Bickham had never intended a second stint in Whitehall when he left to join British Satellite Broadcasting in 1988. But he was called back into service by Hurd at the time of the Gulf War and has acquired a reputation as one of the most effective of the current crop of parliamentary advisers.

Bickham differs from Sir Bernard Ingham, Lady Thatcher's former press secretary who is also on the Hill and Knowlton payroll, in that he is not an old-style political fixer. Instead he believes in knowing his way around the ever-changing regulatory undergrowth. Companies need to "anticipate trends in regulation when developing business plans rather than reacting late in the day in an atmosphere of crisis."

Non-executives

■ **John Westhead**, chief executive of Bowthorpe, has rejoined the board of Southern Water as a non-executive director after an absence of fifteen months.

The board of Bowthorpe had suggested, when Westhead was promoted from group managing director to chief executive at the beginning of 1992, that he should relinquish other commitments. Now that he has settled into that role, however, his fellow directors felt that the Southern position would bring "useful cross-fertilisation", said Martyn Webster, group managing director of Southern.

"I was upset when he first had to go. He is a very good non-executive director at the sharp end of British industry who commands quite a high reputation in the City."

Non-executive director Sir David Nicolson, having turned 70, stepped down from the Southern board in March.

■ **Colin Phipps**, chairman of Clyde Petroleum, has resigned as a non-executive director of Budgens, the grocery chain, after two years on the board. The company says that now it has completed its restructuring phase his job is over.

■ **Hans Reischl**, chief executive of German supermarket chain Rewe, which has taken a minority stake in Budgens, recently went on to the board in a non-executive capacity.

■ **Jack Mather**, until recently chairman of NFC, at BLETCHLEY MOTOR GROUP.

■ **John McGrath**, at COOKSON GROUP.

■ **Christopher Rodrigues**, chief executive of Thomas Cook, at OWNERS ABROAD.

■ **Alan Jones**, at BRITISH VITA.

■ **Howard Robinson**, at S. LYLES.

■ **Sir Malcolm Field**, at SCOT-TISH & NEWCASTLE.

■ **Alan Fletcher**, at South West Water.

■ **David Allvey** at McKECH-NIE.

■ **Nicholas Irens** at SIMS FOOD.

■ **Bill Blackburn** and **John Williams** at CHELSEA BUILD-ING SOCIETY.

■ **Bill Reid** at JACQUES VERT.



■ **Geoffrey John** (pictured above) at MORLAND.

■ **Sir Richard Lloyd**, Rafe Clutton, and **Thomas Manners** have retired from LEGAL & GENERAL GROUP.

■ **Martin Harris** has retired from NATIONAL WESTMINSTER BANK.

■ **Sir Eric Ash** is to retire from BRITISH TELECOM.

■ **Ian Butler** has resigned from NURDIN & PEACOCK.

■ **Kenneth Gould** has retired from GOAL PETROLEUM.

■ **Sir Mark Wrightson**, at NEWMAN TONKS GROUP.

■ **Sir David Nicolson** has retired from LASMO.

IBJ's capital markets emphasis

Toshiki Tobe has been appointed chief executive of IBJ International, the London capital markets operation of the Industrial Bank of Japan, Japan's largest long-term credit bank.

He replaces Yoshio Osawa, who is returning to Tokyo this month to take up a position as general manager of the securities business. He will be appointed to the board at next month's annual general meeting.

Tobe has been based in London for 18 months, as managing director in charge of capital market operations. IBJ has a policy of creating an overlap between a current chief executive and his successor, unlike many Japanese institutions.

Tobe says the firm plans to strengthen its presence in the capital markets, including the derivatives side of the business. For example, IBJ will soon put traders on the floor of the London International Financial Futures & Options Exchange (LIFFE).

IBJ International has a staff of 300 in London, and is one of the most active Japanese financial institutions in the international capital markets. According to IFR Securities Data, which tracks bond financings, IBJ ranks 21st in the Eurobond league table, after Nomura, Daiwa and Nikko, but ahead of any other Japanese bank subsidiaries. The firm is not active in the equities business, from which the parent is excluded under Japanese law. IBJ also has a branch in London through which its corporate lending business is channelled.

■ **John Newman**, formerly a regional director of Hill Samuel Bank, has been appointed assistant general manager of CREDIT LYONNAIS UK.

■ **Richard Keatinge**, is to rejoin BANK OF IRELAND GROUP as head of corporate finance after a period at Hardwicke.

■ **David Deitch** has been appointed a director in the foreign exchange division of CHASE INVESTMENT BANK.

■ **Les Komaromy** has been appointed marketing director of KEMPER INVESTMENT MANAGEMENT, the UK subsidiary of Kemper Financial Services.

SIEMENS

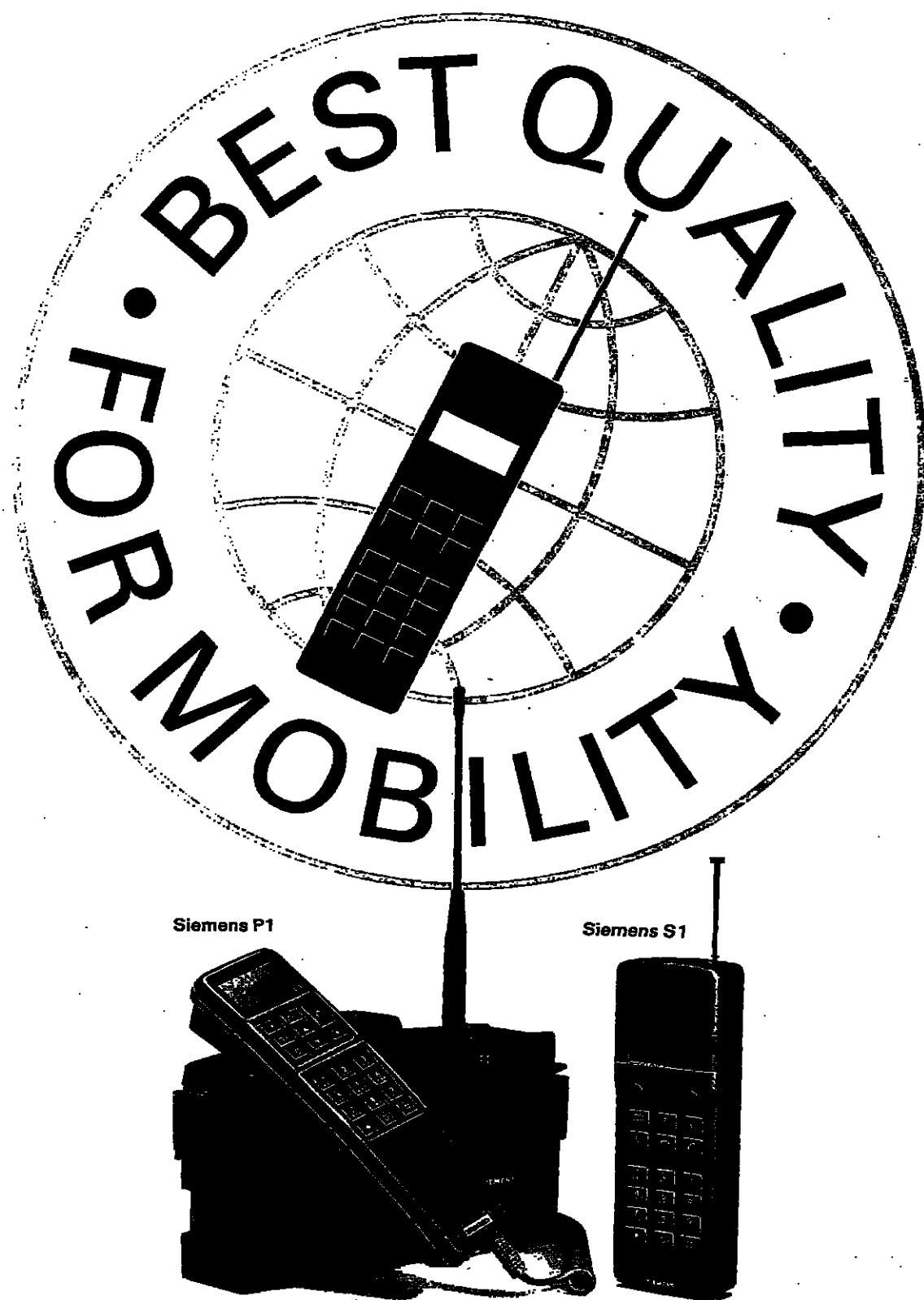
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Financing the welfare state

THE DEBATE over UK welfare spending is taking place in a time-honoured muddle of secret bilateral negotiation, leak and panic. A more reasoned examination is needed to determine what the state should be doing for its citizens in the 21st century, and how this can be financed.

Although prompted by the enfeebled condition of the public finances, this is a debate that would be needed even if the fiscal position were healthy. Demographic pressures mean that current spending commitments are unsustainable in the medium term; meanwhile changing lifestyles and individual tastes and aspirations make a separate case for a more varied pattern of provision.

The starting point should be to revisit the principles behind the welfare state, originally set up to protect those who, through poverty, illness, unemployment or old age, could not help themselves. To achieve these aims, it provided a cradle-to-grave social security system, a national health service, low-cost housing and free state education. The universal provision of health and social security reflected the circumstances of British post-war society in which all but the wealthiest needed such support. The solidarity of wartime experiences also gave resonance to the idea of a welfare state into which all contributed and out of which all drew.

That principle of social solidarity remains important. Any welfare system must command the support of those who contribute to it as well as those who most need its help. But economic growth has reduced the overlap between these two groups. An increasing proportion of people can provide pensions, health care, housing and education for themselves. There remains a large minority who depend on the safety net of the welfare state. Yet paradoxically, it is often the middle classes who get most out of the welfare state, leaving too little for those who lack alternative means. Today, universality is both unaffordable and undesirable.

Right balance

The question which must be asked in every decade is whether the balance between collective and individual provision is right. A London School of Economics study estimates that over 60 per cent of the taxes paid by the average person is returned in various benefits (the rest goes in redistribution). The welfare state acts as a savings bank, with people paying in when times are good and drawing out in times of need.

Business ethics and China

FOREIGN investment is pouring into China. As the reports on page 2 indicate, China's growth offers such promise that businesses have to consider the opportunities. The risks include huge unknowns. How will the country be governed after the octogenarian leadership disappears? To what extent will economic reform bring political change, and will this cause instability? For how long is China's economy doomed to a lurching boom-bust cycle?

There is, however, a further question. Is it morally defensible for businesses to seek profit in a country still firmly controlled by a Communist party which ruthlessly and shamelessly stamps upon its people? This is the government which showed in Tiananmen Square four years ago that it was prepared to stop at nothing to hold onto power. Millions of people languish in its labour camps, the products of their labour often sold abroad.

The issue should not be brushed aside as a concern of politicians, but not of business. Human rights are a matter for each individual. The decisions of each company's directors matter.

The strongest argument for participation in China's boom is that the contact now occurring daily between ordinary Chinese and thousands of foreign business people is a potent agent encouraging stable economic and political development from the inside. Western business practices and ethics are being communicated inside China as a practical matter, not as part of a sermon. The growth of private enterprise and individual expression is being fostered as values encouraged by state control wither. This is the "peaceful evolution" the Communist hardliners fear.

Such changes occur only gradually and can be frustrated. But consider the risks, both for a billion Chinese and for the world, of chaotic governmental collapse similar to that in the former

More of this savings bank function could easily, with appropriate regulation, be undertaken by the individual through private provision.

For some welfare services, however, efficiency may be best served by maintaining a role for the state. In health, for example, international experience suggests that some sort of state role is essential to bear down on the overall bill and ensure cost-sharing between different groups. But even in the health service it is clear that many people want and would be prepared to pay for premium levels of service; this does not mean they wish to see the NHS destroyed.

User charges

User charges also have a greater role to play in paying for public expenditure which confers economic advantage on the recipients. The planned expansion in higher education will need a greater contribution from students, with fees being repaid through a graduate tax. Investment in roads might be financed by higher petrol taxes paid by those using them. And London First, the business consortium, has suggested that improvements in London's transport infrastructure could be partly financed by a levy on businesses in the capital.

Such moves involve a degree of hypothecation - of earmarking revenues for particular purposes. A pamphlet published today by Demos, a new think-tank, suggests much greater use of hypothecation to "reconnect taxation", so that voters can see where their taxes are going. It also advocates referendums to allow voters to choose appropriate tax levels locally to pay for services such as health or public transport.

There are dangers in such an approach, such as the loss of necessary flexibility to switch funds between programmes and the risk it might give to special interest groups. Badly structured local referendums could also encourage the wealthy to migrate to the low-tax suburbs, as in the US, leaving a weakened tax base incapable of dealing with the problems of the inner cities. But the Demos pamphlet provokes exactly the sort of longer-term thinking which is missing from the current political debate. Decisions made and unmade amid fiscal crises suggest to voters that the entire issue of reforming the welfare state is itself a crisis. It is not.

An orderly modernisation of the welfare state is desirable as well as necessary if people are to plan their lives around reasonable expectations of what they must provide for themselves.

Soviet bloc. The world cannot expect western-style democracy suddenly to emerge in China. It is more realistic to expect slow progress towards greater pluralism in government - and it is in the interests of the rest of the world that change occurs in a reasonably calm atmosphere.

The opening of China's economy is bringing broader political and social changes. The month is breaking down. Yet it is an oversimplification to suggest that the party's new dogma - the socialist market economy - is simply capitalism by another name. Businesses negotiating joint ventures are usually dealing directly with official bodies, and bureaucrats still control the supply of many essential inputs. The success of a venture depends on having good connections within the system.

The moral question is, therefore, not easy to answer. Putting sound business principles into practice is the best foundation for assessing investment in China. Experience shows that the successful investments are those which the foreigner thoroughly investigates and carefully oversees. First-hand scrutiny of a venture is not only to be recommended on business grounds, but it should also be used to satisfy the investor that it does not bring involvement in unacceptable practices such as prison labour. Companies, such as Levi Strauss, which have chosen to reject involvement in China because of the country's human rights record, are entitled to respect. Such decisions are, however, part of a carefully positioned corporate image and as such do not necessarily apply to others.

Foreign business presence in China is part of the west's overall policy of engaging in dialogue at every level, seeking to foster stable economic development while at the same time pressing China to conform to international standards of behaviour. Companies which do take the plunge deserve the support of their governments.

A lone superpower in a world with other superpowers, the US is grappling with a new defence dilemma: how to spend less on weapons and still sustain the industrial and technological capabilities that he behind its unquestioned military supremacy.

As long as the cold war lasted, defence spending was high enough for this hardly to be an issue. But the question is in sharp relief now that the Clinton administration has committed itself explicitly to a policy of protecting the "defence industrial base", from submarines to military satellites.

The US defence industry, with 2.75m employees, is already undergoing significant changes to contend with the shrinking home market. In today's dollars, the US was spending \$120bn a year in 1985 procuring military hardware. The figure for the 1994 fiscal year, starting in October, is just \$45.5bn.

In the past year, Martin Marietta, the missile, space and electronics group, has taken over General Electric's aerospace business; Hughes, part of General Motors, has absorbed General Dynamics' missile activities; Loral, which had already bought Ford Motor's aerospace division, has also swallowed the LTV missile business; McDonnell Douglas has put its helicopter and laser operations up for disposal; and General Dynamics has gone on to sell its electronics operation to the Carlyle group and its military aircraft division - maker of the F-16 - to Lockheed.

Not persuaded by the idea of "conversion", General Dynamics has chosen to become, instead of a \$10bn-a-year defence company, a \$3.5bn-a-year defence company.

"I would guess by the end of this century we'll see an industry that has maybe a third of the number of competitors in each category as there are now," says Mr Norman Augustine, chairman of Martin Marietta. "There has to be a consolidation." In some sectors, he says, it may not make sense to have competition at all.

The Pentagon has already indicated it plans to keep "one, not two" submarine production lines. US submarines, all nuclear-powered, are now built at General Dynamics' Electric Boat division at Groton, Connecticut, and at Tennessee's Newport News yard in Virginia. But current plans mean a gap of at least two years in building work before a new Centurion class comes on stream around the turn of the century.

The question is whether it is worth ordering an extra submarine to keep one facility open, an effective subsidy of about \$1.5bn a year. Against that has to be set the time it would take to reconstitute a production line once it had closed.

Mr John Deutch, under-secretary for acquisition, has promised special treatment for "unique" industries such as this, which have no overlap with civil business. Munitions are a similar case. "We strongly feel you need to build fences around them, protect them and nourish them," Mr Deutch told a recent congressional subcommittee.

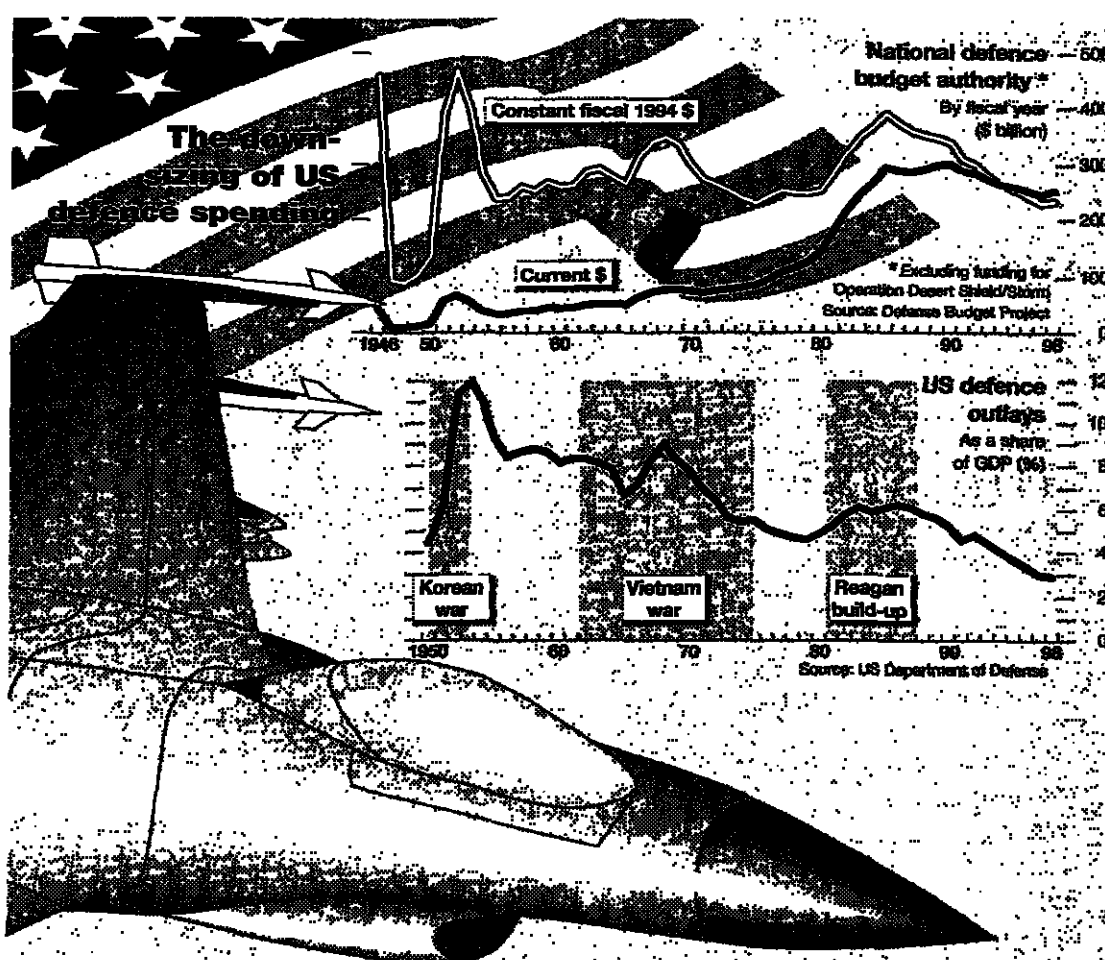
In combat aircraft, a new shape is emerging in the industry, with just two companies - McDonnell Douglas and Lockheed - taking primary roles in designing and manufacturing fighters. The past few months, in which Lockheed has taken over the mile-long F-16 assembly line at Fort Worth, Texas, have fundamentally transformed the landscape for military aircraft in the US, according to Mr Dan Tellep, Lockheed's chairman and chief executive.

At least two new fighters are expected to survive an urgent Pentagon rethink on tactical aircraft requirements. The US air force and US navy have no fewer than four projects under way. Putting all of them into production would break the budget.

Priority looks likely to go to the new top-of-the-range fighter, the Lockheed-led F-22 - although probably in reduced numbers and a new navy variant of McDonnell Douglas's F/A-18 Hornet. These are

The US defence industry is undergoing rapid change to adapt to its role in the post-cold war world, says David White

Survival of the slimmest



the projects most vital for both companies. Other plans for a sophisticated new navy strike aircraft and a multi-role successor to the F-16 may be put off until well into the next century.

The verdict is expected to be the first result from a so-called bottom-up review, due by late summer, into the full range of US defence requirements.

The new Pentagon team has taken on a big task - especially since it is still only part of a team. Many of the important civilian posts at the department are still unfilled, and only a handful of those named have been confirmed by the

The Pentagon may be making some risky assumptions about what it can pay for within the budget

Senate. Almost five months into the administration there is still an air of improvisation. People dealing with the Pentagon find it exasperating. Mr Lawrence Korb, who was an assistant secretary of defence in the transition between the Carter and Reagan administrations and is now at the Brookings Institution think-tank in Washington, says: "This is the worst I've ever seen."

Lack of assistants is only one of the troubles complicating the task of Mr Les Aspin, defence secretary. Among the others are a heart problem, controversy over gay rights in the military, the aftermath of the 1991 naval flyers' sex rampage known as the Tailhook affair, and military discomfort over the government's new pay freeze planned next year.

Mr Aspin's rushed first budget - which he calls "treading water" - is

just a trimmed version of the one he inherited from the Bush administration. Apart from pruning funds for missile defences, the down-to-earth remnant of President Ronald Reagan's far-fetched Strategic Defence Initiative, it has maintained funding levels for all the main armament programmes. The big changes will come in the following three years.

The budget has already come down from over \$300bn a year at the start of the decade to \$283bn for the coming financial year. Under the final Bush plans this would have dropped, in today's dollars, to about \$250bn in 1997. Clinton administration plans would cut this to about \$230bn. It will be the least the US has spent on defence in real terms since the slack years of the late 1970s. As a share of US gross domestic product - about 3 per cent - it will be the lowest since the second world war, and half what it was in the mid-1980s.

The Pentagon may be making some risky assumptions about what it can pay for within that budget. About 40 per cent of the extra reductions foreseen under the latest Clinton plan come from lower inflation expectations, calculated at 2.5 per cent or less a year. Savings of about \$18bn depend on making the freeze stick, with subsequent below-inflation pay increases. And the projections assume that plans carried over from the previous administration are matched by sufficient funding.

The new team already reckoned that it had inherited a shortfall of \$10bn over the 1994-97 period and would need to make that amount of extra cuts, just to make the sums come out.

A panel of three outside experts, reporting back last month, found that the previous team had been over-optimistic about efficiency savings and had underestimated some other costs. The panel put the

figure at up to \$15bn. Mr Aspin, relieved that there was not a \$100bn black hole as some had predicted, chose to add another \$5bn to his spending plans from fiscal 1995, rather than order still more cuts.

In a trillion-dollar spending programme, such sums are a drop in the ocean. But Mr Korb at Brookings believes the amount of underfunding is closer to \$25bn.

The experts' panel has also issued two sonorous warnings. One is that, in the early part of the next century, the US will have trouble paying for all the projects now in development. The other is that unit costs will rise. Declining defence business

'Dual use is a valid concept if not carried too far. You can have dual-use computers, but it's hard to think of a dual-use tank'

"is likely to lead to significant increases in the overhead rates of defence suppliers". This, according to the report, "could lead to unexpected and largely unavoidable increases in existing programmes and elimination of a significant percentage of the cost savings that would ordinarily result from programme terminations".

When Martin Marietta's Mr Augustine was working at the Pentagon in the 1960s he had a theory about rising weapon costs. "I predicted that in the year 2054 one tactical aircraft would cost the whole defence budget," he says. "And we're right on track."

Defence manufacturers do not know yet how heavily the axe will fall, but know that it will fall mostly in their part of the budget. The "investment account", covering

procurement, research and development and construction, and running for more than a decade at over \$100bn a year, is expected to suffer a disproportionate share of cuts.

This is despite the likelihood that at least two equipment items not currently budgeted for will somehow be squeezed in: production of the innovative V-22 tilt-rotor transport aircraft for the Marines, a multi-billion-dollar project opposed by the last defence secretary, Mr Dick Cheney, but supported by Mr Bill Clinton during his presidential campaign; and maybe \$3bn-\$4bn for a third Seawolf submarine, just to keep production going.

Something else will have to give way. In the past the long US budgetary process has provided hope of resurrection for cancelled projects. But Dave McCurdy, a leading Democrat on the House Armed Services Committee, predicts: "A lot of the programmes are going to stay dead."

The US may also have to contemplate deeper cuts in the size of its forces, already reduced from 2.17m in 1987 to 1.73m. The new administration has indicated a target of 1.4m by 1997 instead of the 1.6m planned under President George Bush. But it may go further still in cutting troop numbers, rather than reduce forces readiness. It would be easier to save money this way - maintaining ammunition and keeping battalions staffed is costly - but any step in that direction is taboo. Nobody wants to return to the "hollow forces" of the Carter era.

But, says Mr Augustine: "We also have to be careful we don't build a hollow industrial base." By this he means a large number of defence factories, producing at a low rate, doing little R&D and incurring high overheads. "I think that's a very real risk," he says.

The Pentagon's approach is to try to break down the barriers as much as possible between military and civil industry. "We cannot afford to have low rates of production in an entirely different industrial sector," says Mr Deutch.

Its "dual use" policy is meant to show wider economic benefits for the effort that goes into military technology. It has two sides. One is to focus on developing technologies that have commercial as well as military applications. The other is to take advantage of advances in civil technology, breaking down the tangle of regulations governing the military procurement process and buying products directly from the civil sector. This is expected to produce significant savings especially in electronics and software. Inquirers already have a freephone number to call: 1-800-DUAL USE.

Lockheed's Mr Tellep is cautious. "Dual use is a valid concept if not carried too far. You can have dual-use integrated circuits, dual-use computers, perhaps dual-use cockpit displays. It's hard to think of a dual-use tank."

But Mr Augustine can imagine the next generation of battle tank being designed to use a truck engine instead of the current Abrams tank's gas turbine. "Even though it's not the optimum tank, it may be the optimum tank you can produce."

To keep vital defence plants in business, the Pentagon could transfer maintenance work from state arsenals and dockyards to private-sector manufacturers.

It will also count more on government-led foreign military sales, regardless of arguments for restraint in regions such as the Middle East. A sharp decline in sales from the former Soviet Union has given the US overwhelming dominance in the world market, with arms transfer agreements worth almost \$25bn last year.

Exports are already covering production gaps. The country's sole remaining tank production line, which General Dynamics operates at Lima, Ohio, now lives off Egyptian, Saudi and Kuwaiti contracts. Foreign sales are used to be the icing on the cake for US arms companies. They have become a necessary part of the industrial strategy.

OBSERVER

Forked tongue

Over years of being bombarded with management jargon, such as "Soft-S" fronted structure initiating, Observer has developed a rule of thumb. The only thing more dangerous than deciding that such gobbledegook can't have any meaning is to assume you know what it is.

Take for instance an upcoming phrase increasingly apt to be overheard in trendy executive suites: people being referred to as what sounds like "Hi Macs".

It would be totally mistaken to leap to the conclusion that those so described are either Americans with a cheerful half-fellow-well-met disposition, or Scottish aristocrats. Nor are they being insultingly referred to as putrid hamburgers.

Even seeing the phrase in its correct spelling - "High Machs" - can raise confusion, since it could be taken to mean folk apt to rush around at supersonic speeds.

But the real reference is to people who are highly Machiavellian in their dealings with others. Psychologists test this characteristic by asking how far people agree with statements such as: "Never tell anyone the real reason you did something unless it's useful to do so."

Oh, and just in case anyone doesn't already know it, "Soft-S" fronted structure initiating means

much the same thing: conning people into behaving as you wish.

Low life

Time was when being a life president meant something. In return for giving up the keys to the chairman's suite, corporate grandees were rewarded with a title, secretaries, free lunches and continued use of chauffeur-driven limos.

But outgoing Hammerson chairman Sydney Mason, one of the grand old men of British property, is not even being allowed to keep his office when he inherits his title after Hammerson's annual meeting today. Indeed, he will be lucky if he can even find his name in future annual reports.

How he must envy Lord King, British Airways' newly created president. One of the rumoured perks of being an ex-chairman of a big airline is a lifetime's free flying on any of the world's main airlines.

Dream team

The behind-the-scenes politicking over Jacques Attali's future at the European Bank for Reconstruction and Development is degenerating into farce. Persuading the 59-year-old Ernie Stern, the respected number two at the World Bank, to take the less important number two job at the EBRD is almost as bad an idea as maintaining the status quo.



"I haven't christened anyone John for months"

Why on earth recruit a career bureaucrat whose speciality is managing a third world development bank to run a supposedly entrepreneurial type of institution whose prime aim is to work with the private sector? Sir William Kyrie, head of the World Bank's private sector arm, the International Finance Corporation, would seem better qualified.

Even worse, offering Stern a megabuck transfer fee is hardly the behaviour expected of an organisation already under censure for its proclivity. Nevertheless if the EBRD's owners really are intent on bagging

Stern, it ought surely to be part of a move to replace Attali. One possibility would be to recall Citicorp vice-chairman Onno Runding, the former Dutch finance minister who wanted the EBRD job just as badly as Frère Jacques.

Then the EBRD might have the beginnings of a dream team.

Out of the hunt

When it comes to filling the chief executive's post at Barclays, the NatWest directors John Melbourne and John Tugwell may not be such hot tips as many in the City of London believe.

Earlier this year, Barclays asked executive searchers Spencer Stuart to draw up a short-list for the job. The headhunters, however, had a longstanding relationship with NatWest, and accordingly asked the established client if they could take on the Barclays assignment.

NatWest said it had no objection, so long as the headhunter did not feel it faced a conflict of interest - which of course was a warning to steer clear of NatWest staff when approaching candidates. Whereupon Spencer Stuart intimated that no one from the Action Bank would be on the list.

Oversight

Much tut-tutting is afoot behind the BBC World Service microphones at the absence of former boss John Tusa's name from the Queen's Birthday honours list.

Having been denied a chance of even competing for the job of BBC director-general, Tusa has now failed to get the customary recognition for a job well done.

Former Bush House occupants, such as Gerard Mansell and Austin Kark, picked up CBEs, and some thought that Tusa might even have been in line for his K. During his six-year stint, the World Service won praise from listeners ranging from President Gorbachev to the Beirut hostages.

Admittedly, BBC-types have not been collecting quite so many honours under the new regime at Number 10. But Tusa has gone on to be master of a Cambridge College, and in his 32 years at the Beeb has probably done as much for public service broadcasting as the likes of recently knighted Michael Checkland, David Frost, and Robin Day.

Could it be that BBC chairman Duke Hussey, whose wife is the Queen's lady-in-waiting, somehow forgot to mention Tusa in dispatches?

Soft touch

The Bank for International Settlements, the central bankers' bank never known for subsidising lost causes, must have had a particularly good year. For the first time since records have been kept, journalists attending today's annual meeting are being allowed to phone home their reports without being charged for the use of the phone.

Anyone who does much business in third world cities can empathise with the British investment banker, who recently hurried his telephone out of the window of his hotel on Copacabana beach after a tenth failed attempt to make a local call.

For residents of Rio de Janeiro, the ailing telephone system, while probably a minor problem, provides a fitting symbol for a city where everything is stretched beyond its limits.

The transport system is chaotic; sprawling slums deface hillsides; the bay is polluted almost beyond redemption; and chronic unemployment has pushed many into drugs and prostitution. Crime is so rampant that US State Department travel advisories tell tourists not to walk in the streets.

Just as many of Rio's 10m population were giving up hope, a civic leader has emerged, pledging to change all this. Since becoming mayor in January, Mr Cesar Maia, a left-wing economist from the Democratic Movement party (PMDB), has propelled Rio into national headlines. He has introduced the city's own time zone, and half-jokingly has threatened to issue its own currency to replace the inflation-racked cruzero. He closed off the main commercial thoroughfare for a week of open-air concerts by the Moscow Philharmonic and dressed up as a purple Ninja turtle to encourage children to have vaccinations.

Mr Maia believes such stunts are necessary to boost the city's self-confidence and give it a new image. "I want to show that Rio is different from other Latin American cities - it's playful and rebellious."

Behind all the promotion, however, Mr Maia is serious. His ultimate aim is to make Rio a "global city" modelled on Madrid and Barcelona, offering a range of facilities to attract business and tourists.

Initially he wants to bring in foreign and domestic investment to improve the city's infrastructure, and to privatise public services where possible, to leave the administration free to concentrate on "the big picture". By cracking down on crime and boosting its cultural offerings, he plans to capitalise on the city's spectacular beauty to make the city an international business centre.

To accomplish this, Mr Maia has assembled an internationally respected team of advisers, including Mr Marcilio Moreira Marques, a former federal

Rio finds a hero

A colourful mayor has brought hope to the city, says Christina Lamb

economy minister, who is in charge of attracting foreign capital and aid; and Mr Eduardo Modiano, former head of Brazil's privatisation programme. His brief is to put roads, the marina and even the city's renowned carnival into private hands.

The mayor and his team face a staggering challenge. Urban planners reckon that Rio's population is three times greater than its housing, infrastructure and employment base can support. More than 1,500 slums and irregular settlements house a third of its residents. Evidence of the lack of investment in Rio's infrastructure is abundant. Huge pot-

Initially Mr Maia wants to attract investment to improve the city's infrastructure

holes in the streets contribute to frequent traffic accidents. Giant pits stand as grim reminders that the city went bankrupt in the late 1980s half-way through building a metro system.

Rio's decline can be traced to 1960 when Brasilia became the capital of Brazil. Since then its traditional shipbuilding industry has collapsed and its importance as a port dwindled. As unemployment rose, crime surged. Businesses moved to Sao Paulo, and tourism slumped. Unemployment and crime in turn rose still higher. The syndrome has intensified since the national economy fell into recession in 1989.

It was the issue of law and order that carried Mr Maia to power. When the Earth Summit took place in Rio last June he was lagging in the polls. But the tight security surrounding the conference showed local people how pleas-

ant Rio could be if crime was contained. Afterwards, Mr Maia's ratings rocketed when he said he would use the army if necessary to make Rio safe.

To help stem the fall in tourism, which has dropped 70 per cent since 1989, he has created a special force of undercover "tourist" police. Dressed in T-shirts and Bermuda shorts, its members travel in beach buggies and on jetskis.

Mr Philip Carruthers, head of the Rio hotel association, says results are already being seen in terms of fewer tourist muggings. Encouraged by the new anti-crime mood, a Rio judge has imprisoned 14 of the city's main crime bosses, who are under investigation for alleged involvement in arms and drug trafficking. The state prosecutor is investigating 15 senior policemen for "illicit enrichment".

To improve business facilities, Mr Maia has secured the city's first important investment commitment in decades. Embratel, the state telecommunications company, has selected Rio as the site for Latin America's first "Teleport" - a sophisticated communications centre which will update the city's telephone system as well as offer office space equipped with satellite technology. Embratel is currently looking for private investors and multilateral loans to help finance the \$1bn project.

But Mr Maia's main focus is on culture. "I see culture as part of economic policy," the mayor says. "To make Rio work, we need to make it a special place to visit. Top executives do not go to New York just for business - they go to enjoy its cultural offerings."

Arguing that the city's natural beauty is an economic asset which must be protected, Mr Maia has sent in bulldozers to "remove" slum dwellers from richer areas. Such actions, while applauded by business men and hoteliers, leave him open to charges from representatives of the slum-dwellers that he is "governing for the rich". The mayor counters that his administration is the first to have provided regular public services such as rubbish collection in slum areas.

The collapse this month of a hillside slum in heavy rain and the gunpoint robbery of a visiting American pop group at the airport show how far Rio has to go before it again merits the title "Marvellous City". Rio has not yet decided whether its new mayor is a prankster or a genius. But there is a new mood of optimism which could be the first step to recovery.

are Britain's privatised utilities making excess profits?

The question, debated since BT was privatised in 1984, has been brought to a head by the current Monopolies and Mergers Commission investigation of British Gas. The probe was triggered mainly by the inability of the company to agree with Ofgas, its regulator, what level of profits was reasonable.

A dispute over profits is also simmering between Ofwat and the water industry. The water regulator has embarked on an elaborate examination of profitability for a review next year of the industry's charges.

The government originally rejected profit controls when privatisations began in 1984 and opted for price caps. The idea was that caps would encourage efficiency as companies would be able to keep the extra profits from cost-cutting. But it became apparent that price caps, reviewed every four or five years, could not be set without reference to profits.

Defining a benchmark for a reasonable level of profits is far from easy. Crude profit figures in themselves prove nothing, as large companies need larger profits than small companies to reimburse greater shareholder investment.

Profit increases by utilities also prove little. Last week the airports group BAA, Anglian Water, Northumbrian Water, and three electricity companies - PowerGen, National Grid and Scottish Hydro-Electric - reported higher profits, but the figures still begged the question of whether levels were too high, too low or about right.

The way regulators, utilities and the MMC answer this question is by calculating the "cost of capital" - defined as the minimum a company must pay to raise funds from investors. If a company's return on assets is consistently below its cost of capital, it will be unable to raise new funds. If it is higher, customers are being charged more than necessary.

Applying this theory in practice runs into numerous complexities. Moreover, the utilities and their regulators have produced widely divergent figures of the cost of capital.

Part of the explanation for the differing figures lies in the utilities' interest in proving their cost of capital is high: that way, they believe, the regulators will allow them to make higher profits. Similarly, regulators, as consumer champions, have an incentive to keep prices as low as possible, although this is tempered by

Too high, too low, or just about right

Hugo Dixon examines the debate over profit levels earned by the UK's privatised utilities

Utilities: finding a fair profits formula

Companies reported so far this year	Pre-tax profit £m	% increase (decrease)	Share price rise since flotation %	FTSE100 rise since flotation %	Current cost rate of return %
BT	1,972	(36)	216	142	n/a
British Gas	1,054	(38)	116	77	3.1
BAA	285	49	202	23	n/a
National Power	580	16	105	16	7.3
PowerGen	425	18	115	16	8.7
Scottish Power	297	14	112	13	6.0
Scottish Hydro-Electric	146	19	43	13	6.9
National Grid	533	7	n/a	n/a	7.5
Anglian Water	185	8	91	22	1.5
North West Water	247	7	85	22	1.1
South West Water	98	3	100	22	1.6
Thames Water	251	6	93	22	0.6
Yorkshire Water	139	12	100	22	0.8
Northumbrian Water	69	14	135	22	0.8

* Latest financial year ** As at June 10, 1993 *** Latest available figures
Source: FT and Waterbury Securities

their duty to ensure the utilities can finance themselves.

The dispute is fiercest in the gas industry, where Ofgas argues that the cost of capital is 2% to 5 per cent after inflation, while British Gas believes it should be 6.7 per cent for existing assets and 10.5 per cent for new investment. "We are not earning enough. One of the reasons we went to the MMC was because our profits were being squeezed," says Mr Philip Rogers, British Gas's finance director.

In the water industry, the discrepancy is also wide, with Ofwat arguing for a figure of 5 to 6 per cent and companies pushing for 9% per cent. "The water companies need to be profitable to invest to meet new environmental standards," says Mr Paul Garrett of the Water Services Association, the industry trade body.

Observers not directly involved with either the utilities or their regulators tend to argue that the right figure for the cost of capital lies somewhere between the extremes. Mr Nigel Burton, an analyst at Warburg Securities, says, on average, it is something below 8 per cent. Mr Simon Taylor, an economist at J P Morgan,

the investment bank, thinks the appropriate figure is 6 to 7 per cent for National Grid and higher for others.

Most regulators and utilities use the same academic model to calculate the cost of capital, called the capital asset pricing model. This takes the interest rate on a low-risk asset, such as index-linked gilts, and adds a premium to compensate for the greater riskiness of buying equities. An adjustment is then made to account for the fact that companies raise funds not just through issuing equity but also debt, which is cheaper.

The problem is that there is disagreement on all elements of the calculation: if different figures are put into the model, different figures emerge.

There is particular controversy over whether investments in utilities are risky. The regulators argue that they are less risky than investments in other businesses. The products they supply are basic necessities, not short-term fads, and their dominant market positions give them protection from competition. But the utilities say their businesses are high risk because of continual interference by regulators. Even once a figure is decided

for the cost of capital, there is still a question of how to value utilities' assets. This is because regulators wish to compare the cost of capital with profits as a percentage of company assets.

But valuing assets leads to another conundrum. Inflation rules out valuing assets according to how much was actually paid for them - the "historic cost" approach. But valuing them according to how much they would cost to replace - the "current cost" approach - can produce absurdly high figures.

The most extreme case is the water industry, which was sold to investors for £5.2bn but whose assets in current costs are valued at more than £100bn. If a 5 per cent cost of capital was applied, profits would need to be increased five-fold (see chart).

Ofwat and Ofgas have chosen to cut through this Gordian knot by differentiating between pre- and post-privatisation assets. Pre-privatisation assets are valued according to how much the shareholders paid at flotation, while post-privatisation assets are valued on a current cost basis.

But this is of little use to shareholders and customers,

since published accounts do not disentangle pre- and post-privatisation assets. Matters are more difficult with BT, which stopped publishing accounts on a current cost basis when privatised.

Moreover, figures for single years can be misleading. British Gas's 3.1 per cent return in 1992 was depressed by exceptional factors. Mr Rogers of British Gas explains that in most years since privatisation the company has earned between 2 and 7 per cent.

Such complexities lead some to question the formal approach of calculating the cost of capital. Mr Peter Hyde, an analyst at Kleinwort Benson Securities, says it involves "taking one subjective figure, called capital values, and multiplying it with another subjective figure, called rate of return, to calculate an even more subjective figure".

A less formal method is to look at how well shareholders have fared in practice. This approach, which involves comparing how far share prices have risen since privatisation with the rise in the FTSE-100 index, is set out in the chart.

In all cases, the privatised utilities have outperformed the index, but their records vary considerably. The recently privatised water and electricity companies have done very well - with share prices often rising by 100 per cent during periods when the index rose little. BT and British Gas have also seen their share prices rise. But the rises look less impressive given that they were privatised in 1984 and 1985 respectively and the index has also risen substantially since.

The main explanation for the varied performance is that regulators have already tightened the price caps of the companies which were privatised first. BT's cap has been squeezed from the rate of inflation minus 3 percentage points (RPI-X) to RPI-7%, and British Gas's from RPI-2 to RPI-5. The tighter caps are already having an impact on profits.

By contrast, the more recently privatised electricity and water industries have so far escaped stricter regulation. But reviews of their price caps are under way and it is unlikely they can avoid the regulatory squeeze forever.

When the British regulatory structure was invented, the government hoped to avoid the American debate about the proper rate of return for utilities. It was over-optimistic. The debate is now well under way. It is complex and fraught. It will probably never end.

LETTERS TO THE EDITOR

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Serb leader fails to offer alternative

From Sir Jack Stewart-Clark MEP.

Sir, Radovan Karadzic, leader of the Bosnian Serbs, writes (Personal View, June 9) about the Moslems in Bosnia. He asserts that no Serb can deny that they need a secure home in Bosnia. It is not strange, therefore, that the Bosnian Serbs, with their self-styled Serbian parliament, refused to allow Mr Karadzic to put his signature to the Vance-Owen plan, which allowed for the Moslems to have just such a secure home?

At no time have the Bosnian Serbs come forward with a just alternative. The truth of the matter is that Slobodan Milosevic and Vojislav Seselj, who have between them almost total power in Serbia, are intent on carving out a greater Serbia and the Bosnian Serb regime under Karadzic is a willing accomplice to this. A greater Serbia in their eyes includes all of Bosnia-Herzegovina, the occupied portions of Croatia, Kosovo and Macedonia. Possibly the Moslems may be allowed living space within this but only under the boot of Serb domination.

Karadzic describes the Bosnian Moslems as "our Slav brothers". Let him and the Serb leadership come forward with a humane and realistic plan for these brothers, which will enable them to live in peace and freedom. The world may then start believing that his words have some substance and are not another smoke screen behind which further ethnic conquests may be made. Jack Stewart-Clark, MEP for East Sussex, 97/113, Rue Belliard, Brussels

Vote on it

From Mr Philip Mickelborough. Sir, The decision on whether there should be a referendum on the Maastricht treaty has too fundamental an effect on Britain's constitution to be left to the politicians. There should be a referendum on it. Philip Mickelborough, 39 Kingsbury Street, Marlborough, Wiltshire SN8 1JJA

Call for a royal commission on manufacturing industry

From Mr Roger Lyons.

Sir, Zeneca's current difficulties with its share issue ("Dealers concerned at Zeneca outlook", June 11) is just the latest example of the chronic short-termism that plagues British industry.

Here is a company at the leading edge of scientific innovation, in an industry which requires long-term investment in R&D, but which also produces long-term rewards, struggling to find the capital it needs. Contrast this with the recent stock market feeding frenzy in property where investors have been fighting to get a piece of the action.

How much longer are we going to have to put up with our future as an industrial nation being undermined by the operation of a completely

inadequate financial system? How much longer are we going to see the share of Britain's gross domestic product produced by manufacturing continue to decline? While some sectors of our manufacturing are rightly admired, overall it is now simply too small.

This is a long-term problem that requires long-term solutions and a change in attitudes. The emerging consensus on the importance of manufacturing now needs to be turned into practical action to support and sustain our industries. It is for this reason that MSF has recently proposed to the prime minister the establishment of a royal commission on manufacturing industry. Its task would be to investigate and report on the role that government can and should play in supporting

manufacturing industry; lessons to be learned from abroad; structural changes needed to overcome the dominance of short-term thinking in the link between finance and productive industrial investment; establishment of an industrial system based on partnership between management and employees; and the most effective means of turning innovation, research and development into manufacturing goods.

There has been a large number of royal commissions this century, but not one on manufacturing - the foundation of Britain's national wealth. It is time this was remedied.

Roger Lyons, general secretary, MSF Union, 64/66 Wandsworth Common North Side, London SW18 2SE

Predictions on share prices, please

From Mr Gordon Mitchell.

Sir, The improvement to the FT weather service is greatly welcomed. Particularly useful are the forecast temperatures for the day of publication in the leading centres of the world. Your previous service giving temperatures at noon on the previous day was, after

all, of interest to just a few time travellers.

Perhaps the time is now right to extend this logic to your excellent London Share Service. The previous day's figures are, after all, an esoteric interest. The value of your newspaper would be immeasurably increased, for the gen-

eral reader, by the inclusion of forecast share prices at noon on the day publication.

No doubt, the actuaries you use for your share indices could easily cope with such a short-term forecast.

Gordon Mitchell, 146 Manor Green Road, Epsom, Surrey KT19 8LL

Aims of Taiwanese airline

From Mr Frank Hsu.

Sir, I offer some clarification to your article speculating on the possible advancement of government negotiations for the development of commercial air services between Taiwan and mainland China ("Business pulls Taiwan closer to mainland", May 21).

Your naming of certain cities as possible destinations for new air routes from Taiwan - Beijing, Shanghai, Xiamen, and Guangzhou - is conjecture, and will remain so until such time that the political situation changes.

That EVA Air may serve these, or any other cities in mainland China, must therefore be seen as speculative, and our decision would be made solely on commercial grounds. It is quite wrong, however, to suggest that EVA Air would transfer aircraft from existing

international scheduled services to develop new air services between Taiwan and mainland China. Our international route development remains central to our growth strategy.

It is untrue also to state the EVA Air's chairman, Mr Y F Yang, is "an avowed supporter" of Taiwan's Democratic Progressive party. He has never been affiliated with any of our political parties.

Finally, your article began by stating that EVA Air will have five new Boeing 747-400 aircraft before the end of this year. In fact, we shall have seven. Frank Hsu, president, EVA Air, 378 Hsin-nan Rd, Sec 1, Lechu, Taoyuan Hsien, Taiwan

Holding on to directors

From Mr Walter Wright.

Sir, You may be right, overall, to urge the limiting of directors' rolling contracts to not more than 12 months ("Pay off punch", June 8), but the longer ones do have their legitimate uses.

I recently pointed an accusing finger at a non-executive company chairman who had raised from three to five years the contracts for this top two executive directors. He patiently explained that he was anxious to retain the services of the two executives concerned for as long as possible as they were important to the company. There was no question, in this case, of a possible golden parachute. Walter Wright, 138 Court Road, Orpington, Kent BR6 6PY



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Selection seen as watershed in country's politics Turkey picks economist as first woman premier

By John Murray Brown in Ankara

MRS Tansu Ciller, a 47-year-old academic economist, will be sworn in today as Turkey's new prime minister. She becomes the first woman to lead the predominantly Muslim country, and one party delegate said: "She is the only candidate who can represent Turkey in a European context."

Having resigned as economics minister last week to contest the leadership of the conservative True Path party (DYP), Mrs Ciller emerged unchallenged on the second ballot of 1,169 DYP delegates. She had fallen just short of an absolute majority against two other contenders in the first round. Mr Ismet Sezgin, interior minister, and Mr Koksak Toptan, education minister, then withdrew.

The new premier succeeds Mr Suleyman Demirel, whose accession to the presidency last month created yesterday's leadership

contest. With the death in April of then President Turgut Ozal, and Mr Demirel as president, Mrs Ciller's election marks a watershed in Turkish politics and the handover to a younger generation.

First woman PM must reforge party image. Page 5

Her emergence is not likely to signal a great shift in Turkey's traditional pro-western foreign policy, although she is expected to accelerate economic reforms. Yesterday she restated her promise to speed up the privatisation of state companies.

A wealthy Istanbul economics professor, Mrs Ciller is seen as the party's best hope to restore its tired image ahead of the vital municipal elections next year and the general election which must be held before 1996.

She told delegates meeting in an Ankara sports stadium that in voting for her they were "writing the first words on a sheet of new white paper". A relative unknown in DYP ranks, who entered parliament only at the last election, Mrs Ciller owes her rise to Mr Demirel, who picked her as an economic adviser. However, the president, who immediately sent his congratulations, will need to counter a public impression that he opposed her candidacy.

With most of the cabinet also thought to have voted against her on the first ballot, Mrs Ciller will quickly have to assert her control over the party machine.

There was also some doubt last night over the future of Mr Ruzdu Saracoglu, the central bank governor with whom Mrs Ciller has disagreed over her anti-inflation policy. Mr Saracoglu was a pivotal figure in the economic reforms of the 1980s.

Domestic hitch for Clinton's Supreme Court plan

By Jurek Martin in Washington

WASHINGTON'S newest and most virulent disease - acquired household help payments deficiency syndrome - was yesterday presenting complications for President Bill Clinton's likely choice for the Supreme Court.

The White House confirmed US media reports that Judge Stephen Breyer of Massachusetts and his wife had for several years failed to make social security payments on an elderly woman who was a part-time home help. They had apparently made back payments and paid a penalty earlier this year following revelations in the cases of Ms Zoe Baird and Judge Kimba Wood, respectively nominated and considered by Mr Clinton for the position of attorney general.

The president was said to have been impressed by Judge Breyer, chief of the federal appeals bench on the Boston circuit, at a White House lunch on Friday. No announcement was then made to allow for last-minute background checks, but the Breyers were asked to stay on in the Washington area for a few days and the other leading candidate, Mr Bruce Babbitt, the interior secretary, said he was content in his present position.

There was no early word yesterday from the White House as to whether Judge Breyer's nomination was now in doubt. But one obvious difficulty, instantly alluded to by Mr William Cohen, the Republican senator from Maine, is that nominating him could prompt the widespread perception that a double standard is applied to male and female candidates for high office.

During the Baird and Wood controversies, it was frequently alleged that no male nominee would ever have been subjected to inquiry about the affairs of his personal household. Two male cabinet members - Mr Ron Brown at the Commerce Department and Mr Federico Pena at transportation - were confirmed in office after disclosing that they had failed to pay the relevant taxes on their domestic employment.

There are shades of difference in the three household help cases. Ms Baird and her husband, a law professor at Yale, had hired a Peruvian couple, apparently knowing that it was illegal at the time to hire undocumented immigrants. Judge Wood and her husband, a journalist at Time magazine, committed no technical breach of the law, but were caught in the Baird backlash.

Judge Breyer and his wife, a psychologist, are said not to have paid social security payments which they thought unnecessary because their household help, a US citizen, was already old enough to be receiving social security benefits.

THE LEX COLUMN

Stable conditions

Controlling market prices around the time of new issues has long been a thorny problem for investment banks. Any attempt to support the price of an issue is a form of market manipulation, though it is often justified on the grounds that it helps maintain an orderly market. Such stabilisation is now controlled by strict SIB rules which forbid, for example, the lead manager to buy in securities above their issue price. So in the Zeneca rights issue, the manager Warburg, which has been a notable bidder for shares above the 60p issue price, is presumably acting for clients, since buying for its own book would be difficult to distinguish from stabilisation.

The rules on stabilisation are, however, quite specific and focus on the lead manager buying securities immediately after the issue. In the case of the BT3 offer, Warburg is encouraging institutions to buy shares ahead of the float by offering preferential allocations to those that buy, while penalising excessive sellers. This will tend to support the price and smooth the absorption of the issue. In that sense at least it is analogous to stabilisation, for while the lead manager is not directly supporting the price, it is encouraging others to do so.

If the incentive proves popular, it could significantly influence the BT share price. With stabilisation, at least the members of the syndicate know the extent of intervention, whereas in this case not even the lead manager is fully aware of the market impact of the measure. Currently there is a grey area between acceptable smoothing and an unacceptable false market. Perhaps the SIB should consider including such incentives in wider stabilisation rules to ensure that the market is transparent, as well as orderly.

Currencies

The message from the money markets is that holding D-Marks is now more risky than holding French francs. While the ubiquitous Mr George Soros might be blamed for spreading the notion that the D-Mark is due for a period of weakness, other factors are at work. The dire state of the German economy undermines faith in the Bundesbank's ability to defend the D-Mark. Supportive statements from the authorities last week notably failed to lift the currency.

With the D-Mark wounded, France has a chance to cut rates without worrying too much about strains within the ERM. Since recession in France is



Source: Datastream

at least as painful as in Germany, it should make the most of the opportunity. The change in sentiment towards the franc this year is a reminder of how fickle the foreign exchange market can be. Should the German economic slide prove less protracted than the pessimists believe, or should France's good intentions on inflation be seen to waver, the D-Mark could start to impose again.

It is far from clear that the D-Mark has been deposed as the anchor of the ERM. French bonds still yield more than German bonds at longer maturities. That reflects the short track record of the Bank of France as a paragon of monetary virtue. Until it can rival the credibility of the Bundesbank over a long-term horizon, D-Mark weakness looks more like a window of opportunity than the start of a new era. If 10-year French bond yields fall below German, it will be time to think again.

Water sector

The inability of the water companies to make a decent return on unregulated business has been a notable feature of the results season. The companies' response is that investment in areas such as waste disposal and process engineering is a hedge against tougher regulation after next year's review. Whether or not that proves correct, the relationship between the regulated and unregulated sides of the business should be as transparent as possible.

On the surface, water companies work under stricter rules on cross-subsidies than other privatised utilities. Licence amendments introduced last year explicitly outlawed any form of subsidy passing across the regulatory divide. But the system of policing so

far has been anything but rigorous. By publishing new guidelines on transfer pricing last month, Ofwat recognised as much. The dividends paid by the utility companies to their quoted parents remain a grey area. Northumbrian drew £21.8m from its utility last year, but paid out rather less to shareholders. Its unregulated business lost money.

All credit to Northumbrian for reporting the dividend figures with its preliminary results. Other water companies would do well to follow suit. One can only hope the regulator takes such transfers into account when setting pricing limits for the second half of the decade. If Ofwat gets its sums right this time around, there will be precious little left over to pass up the line.

Barclays

It is now more than three months since Barclays cut its dividend and promised to find a new chief executive to work alongside Mr Andrew Buxton, the bank's chairman. Since then, there has been no news on the chief executive, but the share price has risen by 20 per cent. There is a risk that the recovery will calm the institutions down. They are more inclined to make a fuss when they are losing money, but a responsible role in corporate governance requires a consistent long-term approach. The installation of a better structure at Barclays is a project worth seeing through.

It would be unfair to expect Barclays to rush. The choice is a difficult one but it gets harder as time goes by. Not only would a new chief executive have to work with existing senior managers who may be miffed at the appointment of an outsider. The better Mr Buxton is established as executive chairman, the harder it will be for a new chief executive to carve out a meaningful role - and the greater the risk in accepting the job.

If it is not to face the loss of more top executives, Barclays needs a candidate of conspicuously higher calibre than the average senior clearing banker. One answer might be to look for a non-banker, but it would make more sense to appoint such a person as chairman. Sir Peter Walters became chairman at Midland, while Mr Brian Pearce, the hands-on banker, was made chief executive. The task at Barclays might be easier if the bank was made more manageable by splitting it up. BZW, for example, is plenty big enough to stand alone.

Italian bank reform set to assist troubled companies

By Haig Simonian in Milan

ITALY'S banks have been given the go-ahead to take stakes in industrial companies, in a step aimed at assisting privatisation and bailing out troubled private companies.

Commercial banks will be able to own up to 15 per cent of industrial companies directly, provided the stakes do not damage their profits. The size and number of equity stakes will be limited by criteria set by the Bank of Italy, based on a commercial bank's size and type of business.

Large commercial banks will not be able to invest more than 6 per cent of their capital in a single stake, and not more than 40 per cent for all their industrial participations.

The plan to reform one of the central pillars of Italy's 1936 banking law, made by the central bank last month and approved by a cabinet committee on Friday night, takes the country's bank-

ing rules closer to the German model.

The long-discussed change has been accelerated by the severe debt crisis faced by a number of Italian companies. Rescue talks are under way between Ferruzzi, Italy's second biggest private company, and bank creditors, while creditors are negotiating a restructuring of the Aga Khan's Ciga hotels chain. Ferruzzi and Ciga have debts of L31,000bn (\$20.9bn) and well over L1,000bn respectively.

Reform of banking rules could also ease the government's privatisation plans.

Allowing the banks to take stakes in privatised companies could help overcome liquidity problems on the small Milan stock exchange and provide the government with much-needed cash to curb the huge budget deficit.

Italy's privatisation programme, involving the disposal or flotation of large swathes of

the state's activities in industry, energy and financial services, has had a slow start. Although handicapped by domestic political uncertainties, disposals have also been held back by limited interest.

Some observers fear reform of the banking law could put pressure on state-owned banks, which dominate the financial system, to buy up privatised assets. A senior Italian official has confirmed the government has reached a compromise with the European Commission on reforming new laws on securities trading to bring them into line with EC rules.

Rome will alter its controversial law, named after the Società di Intermediazione Mobiliare, the new form of securities broker, to conform with EC rules on freedom of establishment and the free provision of services.

Italy to sell financial services group. Page 15

Somalia

Continued from Page 1

of burned-out ammunition stockpiles. Mr Ato claims he stored only fuel and spare parts at his workshop.

Gen Aided was also at the site. "This is an unjust and criminal act against Somali people," he said. He called on the world to condemn the human rights violations committed by Pakistani troops. He said he would not hand over those responsible for the June 5 killing of Pakistani troops. "I will remain with my people," he said.

Japanese reluctant to move

Continued from Page 1

Japan, where controversial, friction-creating decisions, such as staff cuts, are very slow to be made.

"The companies were basically restructuring cases, and we have found that Japanese companies are reluctant to get involved in this sort of operation. Certain unpopular decisions have to be taken, and they don't like doing that," Mr von Stackelberg said. "The US business mentality is completely different. They are very interested at buying in

cheaply and turning a company around. Japanese companies are extremely risk averse."

The Treuhander also discovered that business contacts are not made through advertising in the Japanese financial press. Mr von Stackelberg said that there was "almost zero response" to a series of advertisements, but "you have to pay a certain price to gain experience."

Most of the agency's contacts were made through Japanese trading houses and banks, which passed on details of potential deals to their corporate clients.

FT WORLD WEATHER

Europe today

East of high pressure, located over the British Isles cooler, drier air will move into north western Europe. It will be fair in Norway, Denmark, eastern England and Scotland and in the northwest of the continent. By contrast, it will be overcast in Ireland and western and central France with even some rain later as a warm front moves in from the Atlantic ocean. Another front is present over the north-west of the Commonwealth of Independent States. Around the low pressure, it will be overcast with periods of rain. Behind the cold front the air will be unstable over the Balkans with some showers developing. In southern Europe, it will be sunny with temperatures rising to 26C-30C.

Five-day forecast

In the northern half of Europe, it will be rather cool and unsettled this week. There will be some fair periods, but rain will also fall, as depressions move in from the Atlantic. Over the continent, the temperature should become warmer by the end of the week. Over the Balkan states, there will still be some showers tomorrow, but from Wednesday, it will brighten up. In Spain, Portugal and Italy it will be sunny and warm with just a small risk for a thunder shower in Spain on Thursday.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	sun 40	Berlin	fair 18	Chicago	showers 27
Algiers	fair 28	Birmingham	cloudy 17	Cairo	sun 30
Amsterdam	fair 15	Bombay	showers 28	Copenhagen	fair 18
Athens	sun 31	Buenos Aires	sun 30	Dallas	fair 33
Bangkok	thund 33	Calcutta	sun 32	Darwin	fair 31
Barcelona	sun 34	Caracas	sun 32	Helsinki	fair 18
Beijing	thund 32	Cape Town	sun 30	Hong Kong	fair 31
Bombay	thund 32	Edinburgh	fair 16	Isle of Man	cloudy 18
Bombay	thund 32	Frankfurt	fair 18	Japan	sun 30
Bombay	thund 32	Geneva	fair 18	Los Angeles	sun 28
Bombay	thund 32	Glasgow	cloudy 17	Madrid	sun 28
Bombay	thund 32	Hamburg	fair 18	Manila	fair 28
Bombay	thund 32	London	fair 17	Melbourne	fair 15
Bombay	thund 32	Los Angeles	sun 28	Mexico City	thund 22
Bombay	thund 32	Lyon	cloudy 21	Montreal	fair 22
Bombay	thund 32	Madras	sun 28	Moscow	rain 21
Bombay	thund 32	Manila	fair 28	Mumbai	sun 30
Bombay	thund 32	Maracaibo	fair 28	Nairobi	sun 30
Bombay	thund 32	Medan	sun 28	Rangoon	thund 28
Bombay	thund 32	Memphis	sun 28	Reykjavik	fair 12
Bombay	thund 32	Miami	sun 28	Riyadh	sun 42
Bombay	thund 32	Minneapolis	sun 28	Rome	sun 24
Bombay	thund 32	Mississippi	sun 28	S' Francisco	sun 27
Bombay	thund 32	Montreal	fair 22	Seoul	thund 28
Bombay	thund 32	Moscow	rain 21	Singapore	thund 32
Bombay	thund 32	Mumbai	sun 30	Stockholm	showers 14
Bombay	thund 32	Nairobi	sun 30	St Petersburg	sun 19
Bombay	thund 32	Rangoon	thund 28	Sydney	fair 18
Bombay	thund 32	Reykjavik	fair 12	Taipei	sun 34
Bombay	thund 32	Riyadh	sun 42	Tokyo	fair 27
Bombay	thund 32	Rome	sun 24	Toronto	fair 28
Bombay	thund 32	S' Francisco	sun 27	Turkey	fair 28
Bombay	thund 32	Seoul	thund 28	Vancouver	fair 21
Bombay	thund 32	Singapore	thund 32	Warsaw	fair 22
Bombay	thund 32	Stockholm	showers 14	Washington	sun 28
Bombay	thund 32	St Petersburg	sun 19	Wellington	showers 13
Bombay	thund 32	Sydney	fair 18	Winnipeg	fair 19
Bombay	thund 32	Taipei	sun 34	Zurich	fair 18
Bombay	thund 32	Tokyo	fair 27		
Bombay	thund 32	Toronto	fair 28		
Bombay	thund 32	Turkey	fair 28		
Bombay	thund 32	Vancouver	fair 21		
Bombay	thund 32	Warsaw	fair 22		
Bombay	thund 32	Washington	sun 28		
Bombay	thund 32	Wellington	showers 13		
Bombay	thund 32	Winnipeg	fair 19		
Bombay	thund 32	Zurich	fair 18		

Forecast by Meteo Consult of the Netherlands

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TUNISIA

Monday June 14 1993

Reform programme is as
right as rain
Page 2

Fears that the country
may lose its charm
Page 8

SECTION III

As a result of its policy of structural adjustment, Tunisia has become a favourite of the International Monetary Fund. It is also a pilot country for certain United Nations social programmes. Mark Nicholson and Francis Ghiles report

An economic balancing act

NORTH Africa's smallest nation looks to its neighbours with a peculiar mixture of pride and unease. Tunisia's ministers, and swelling class of businessmen and women, point with self-congratulation to the country's recent economic successes, its political stability and its distinctively western social policies. The ogre of Islamic fundamentalism has, they claim, been quashed.

A course of near-Europeanisation is firmly plotted. If only the same held next door to the west, where Tunisians are profoundly disconcerted by the threat of incipient guerrilla war in Algeria, or to the east where Libya continues to play its own unpredictable, pariah's path.

Such regional uncertainties appear only to harden the government's determination to set a better, meaning a more western, example. The regime of President Zine el-Abidine Ben Ali, which calmly ushered out, on the pretext of "senility", the post-independence leader Mr Habib Bourguiba in 1987, holds as its primary ambition nothing less than laying eventual claim to a full place in what it hopes will be an expanded European economic space.

Much has been achieved. Seven years into International Monetary Fund and World Bank guided structural adjustment, Tunisia's increasingly open economy has grown by

an average 6.6 per cent in real terms over the past three years. Absolute poverty has shrunk, according to official figures, from 30 per cent of the population in the 1970s to 6.7 per cent today. As a legacy of Bourguiba's progressive birth control policies, the population growth rate has diminished to a regionally unparalleled 1.9 per cent, and the country is set to reach replacement rate for its economic population in 2025, by which time there will be around 12m Tunisians.

Socially, too, Tunisia aspires to European norms. Perhaps most important is the role accorded to women, who enjoy better rights to divorce, abortion and general equality before the law than their counterparts in any other Arab country - again a legacy of the Bourguiba era. Tunisia's association of women managers has 2,000 or more members.

Such achievements have made Tunisia a favourite of the IMF, and a pilot country for certain United Nations social programmes. But they have been won in a manner which has brought the government little praise for its political strategy.

In testimony last month before the US House foreign affairs committee, Mr Edward Djerejian, assistant secretary responsible for Near East Affairs, praised Tunisia as a "case study of the positive



results of free market reforms," but voiced "serious concerns" about human rights and political freedom. "Tunisia has dealt too harshly with some of its political opponents," he said. "Tunisia's human rights record has been marred by credible claims of torture."

These claims were raised particularly by Amnesty International following the government's arrest and detention in May 1991 of almost 300 alleged members of the now outlawed al Nahda Islamic party, whose leader, Mr Rachid Gannouchi, is now seeking political asylum in Britain.

The group was accused of plotting the government's overthrow and planning to attack the president's aircraft with a Stinger anti-aircraft missile. But the clampdown followed

rising concern within the regime at the rising Islamic challenge in Algeria and the burning of two night watchmen at the premises of the ruling party. In the view of most western diplomats in Tunis, the government simply decided to come down as hard as possible, as soon as possible, on what many consider to have been at best a nascent threat. "They wanted to crush the movement while it was still inside the egg," says one.

The government, and Tunisia's middle classes, profess themselves confident that, for the moment, whatever fundamentalist threat there was has been summarily dealt with. Whatever residual popular support al-Nahda might still have is almost impossible to judge. Diplomats quote support ranging from 13-20 per cent in the



Contrast in styles: the painting above by Abdelaziz Gorgi is representative of the modern school of Tunisian art, while the engraving (left) by Gaston Vulliamy dates back to 1896 (photograph reproduced by courtesy of Tahar Ben Mustapha)

last elections, where independent candidates backed by al-Nahda were free to run. While the government keeps a tightly policed clamp on any political manifestation of Islam, however, estimates of present fundamentalist sympathy are anecdotal surmise.

In fact, the government's weapons against political Islam are not merely oppressive. Its championing of women is one attempt to create a powerful social pillar of resistance against what it regards as "backward" Islamic thinking.

Among other attempts to attack the possible social causes of fundamentalism, the ministry of social affairs is also creating numerous centres of "social service and integration". These are being set up in places of relative poverty and deprivation to nip "delinquency" in the bud and better to understand and address its causes. "In Algeria and Egypt social policies have been left to the fundamentalists," says one official. "That will not happen here."

But the greatest single weapon, the government hopes, will be economic progress and the delivery to Tunisia's already large middle class of some tangible rewards from liberalisation. On the macro level, Tunisia has already brought down its budget deficit to around 2 per cent of GDP from more than double that in

the late 1980s, has freed a majority of producer and consumer prices, trimmed subsidies, begun to liberalise financial markets, freed constraints on most imports and courted with increasing zeal foreign investment, levels of which it hopes to treble over the next three years.

It has also begun preliminary negotiations with the European Community, with which Tunisia does almost 80 per cent of its trade, towards a comprehensive co-operation accord to improve substantially on the financial protocols and quota agreements which at present determine its links across the Mediterranean.

The key to its success will lie in achieving its ambitious inward investment target. To keep pace with its growing workforce, Tunisia needs to create more than 60,000 jobs a year - and more if it is to make inroads on unemployment officially calculated at 15 per cent. "This growth is possible," says one banker, "but only through marginal investment, and this can come in sufficient size only from overseas."

The difficult task for Tunisia's technocratic ministers will be to attract this investment while continuing to expand, and pay for, social policies which are considered both a political imperative and the natural fulfilment of the popu-

lation's increasingly middle class aspirations. For the moment Tunisia competes directly as a low wage economy with its North African neighbours, notably Morocco, eastern European countries and, in some industries, south-east Asia. But, says Mr Nouri Zargati, the finance minister: "We do not want to break records of competitiveness by sacrificing social standards."

The government is determined to improve its network of social policies, including, for instance, a minimum wage which rises in line with inflation. At the same time it cannot afford to lose competitive ground to the countries of eastern Europe.

To that balancing act should be added, in the minds of many Tunisians, an additional political imperative: that of taking greater steps towards real democratisation while at the same time allowing the country's press greater freedom. At present, President Ben Ali's ruling party, the Rassemblement Constitutionnel Democratique, holds all 141 seats in the country's parliament and keeps an iron grip on the political process.

Talks between Mr Hamed Karoui, the prime minister, and opposition parties are under way with the aim of ensuring at least some non-RCD representation after general elections next March. The

IN THIS SURVEY

- Three seasons of bountiful harvests have helped boost the economy. Key facts; Map Page 2
- Offshore banks offer a window on the world; inward investment drive Page 3
- Mapping out an EC future; Bright hopes for energy Page 4
- Agriculture is reborn; Oiling the wheels of the workers Page 5
- New source of wealth from the desert Page 6
- New age dawns in old town; Covers come off real history Page 7
- Women escape Islam's past; The unattractive side of tourism Page 8

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TUNISIA 2

SO FAR the gods have smiled upon Tunisia's economic reform programme. Or, perhaps more accurately, rained on it.

Four growing seasons of good rain and correspondingly bountiful harvests have, as much as anything else, helped Tunisia raise GDP by an average of 6.6 per cent a year over the past three years. Further good rains promise also to lift this year's growth above government budgetary forecasts of 2.9 per cent.

Tourism receipts have been equally buoyant, rising 34 per cent last year to around DT1bn as the industry bounced back from its reverse during the Gulf war - a rebound which largely accounts for the disproportionately big 8.4 per cent rise in GDP for 1993 over 1991.

But Tunisia's harvests, tourist crop and, indeed, yields from all other sectors of its economy need to be abundant. The government, in its eighth and present development plan, has stencilled in an annual average growth rate of 6 per

Tunisia's vulnerability to Europe's economic malaise is evident

cent a year to 1996. Only at that rate, the government estimates, can the economy deliver the 313,000 new jobs the labour market will demand over the period.

That target is ambitious for at least two good reasons. The first is that it must be achieved by export-led growth into the teeth of a recession in Europe, which at present swallows more than 77 per cent of Tunisia's overseas sales. The second is that this growth must also come as Tunisia's structural adjustment programme begins to cut more deeply into the softer underbelly of Tunisian industry.

Tunisia's vulnerability to Europe's economic malaise is already becoming evident. Even with 1993's banner growth figures, Tunisia's merchandise trade deficit widened 55 per cent to DT2.1bn: exports rose only 4 per cent against an 18 per cent rise in imports. Already this year, provisional figures suggest exports have risen only 0.3 per cent in the first three months while imports are up 10.2 per cent.

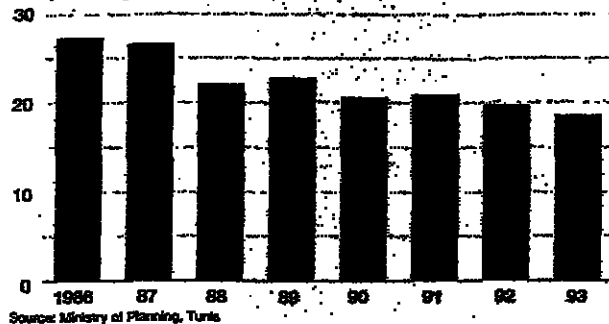
A big surplus in Tunisia's services is likely to offset much of the merchandise trade deficit, with tourism revenues

Three seasons of bountiful harvests have helped boost the economy, says Mark Nicholson

Reform programme as right as rain

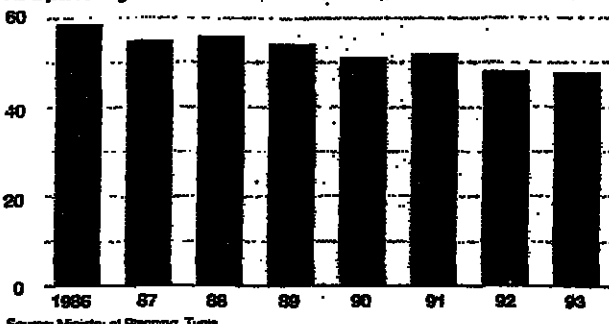
Debt service

As a percentage of exports



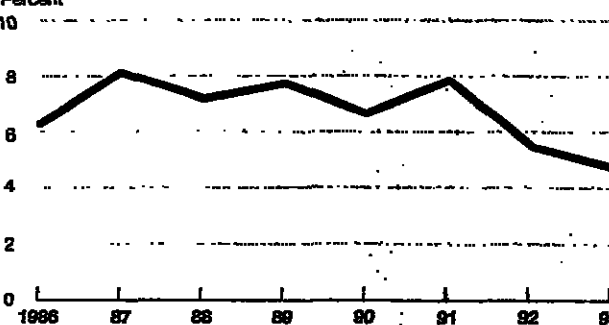
External debt

As a percentage of GDP



Inflation

Percent



in particular expected to grow by as much as 18 per cent. But some western economists believe Tunisia is likely nevertheless to see its current account deficit exceed last year's figure of DT723m in 1993.

The weakness of Tunisia's main markets may also have the effect of worsening the damage to its less competitive industries wrought by the con-

tinuing structural adjustment programme, now in its seventh year. "The effect of the reforms would have been quite small had there been no international crisis," says Mr Nouri Zorgati, the finance minister. "Unfortunately more firms will be affected than might have been the case - and sadly above all in textiles".

Mr Zorgati reckons that some 10 per cent of the coun-

try's hundreds of garment manufacturing companies could be directly at risk as Tunisia continues to dismantle import, tariff and price controls under its International Monetary Fund and World Bank guided reforms. As part of those reforms, the World Bank is to commit a line of credit worth \$100m, to be disbursed through the banking sector, to help alleviate some of the pain among less competitive companies.

This restructuring process is already well under way - indeed, Mr Mustapha Nabil, planning and regional affairs minister, says the process should be almost complete by 1994. Already, he says, Tunisia has freed 57 per cent of producer prices and half of consumer prices. Some 85 per cent of imports have been freed of restrictions, with the remainder due to be freed by 1994. Tariffs, meanwhile, have been cut from pre-reform levels exceeding 200 per cent in some cases to an average of 43 per cent.

Nevertheless, the toughest effects of these reforms are still to come in many cases, and some of the most sensitive barriers remain to be dismantled. For one thing, some western economists calculate that although 85 per cent of imports have been freed from restrictions in total, restrictions have been lifted entirely on only 30 per cent of imports which compete directly with local products.

Some additional tariff barriers also remain. As a temporary and transitional cushion to some sectors of the economy the government in 1992 introduced a phased and diminishing additional tariff on some goods falling 30-30-10 per cent over three years and disappearing by 1995. Furthermore, a "temporary" 5 per cent import surcharge introduced to help cope with the economic shock of the Gulf war remains in place.

Nevertheless, there is no question either of the government's resolve to push through the full gamut of liberalising reforms, albeit at a pace which it feels it can politically afford, or of its success in managing those reforms already under-

KEY FACTS		
Area	164,150 sq km	
Population	8.37m (1992 estimate)	
Head of State	Zine El-Abidine Ben Ali	
Currency	Tunisian dinar	
Average exchange rate	1992: \$1 = DT0.88590	
ECONOMY		
	1991	1992
Total GDP (\$bn)	12,013	13,225
Real GDP growth (%)	3.9	8.1
GDP per capita (DT)	1,461	1,639
Components of GDP (%)		
Private consumption	63.4	62.1
Government consumption	17	16.3
Exports	39.5	38.7
Imports	-44.9	-45.0
Consumer prices		
(% change pa)	7.8	5.5
Unemployment (% of lab force)	15.6	15.8
Public sector debt as % of GDP	26.7	34.2
Reserves minus gold (DTm)	636	852
Current account bal (DTm)*	-527.3	-682.3
Exports (DTm)	4,744.7	5,311.9
Imports (DTm)*	5,392	6,173
Trade balance (DTm)	-647.5	-1,023.5
Main trading partners		
(1991, % by value)	Exports	Imports
France	25.1	26.0
Italy	19.5	17.4
Germany	16.3	14.3
Belgium	6.2	8.6
EC	76.0	71.6
Maghreb Arab	8.7	3.8

*Without goods

Source: Ministry of Planning, Tunis

* Without grapes

Source: Ministry of Planning, Tunis

taken. Subsidies, for instance, have been trimmed substantially from around 3.3 per cent of GDP two years ago to a little over 2 per cent. Further cuts in basic subsidies are being examined.

On the revenues side, the introduction of a stroke in 1988 of value added tax, combined

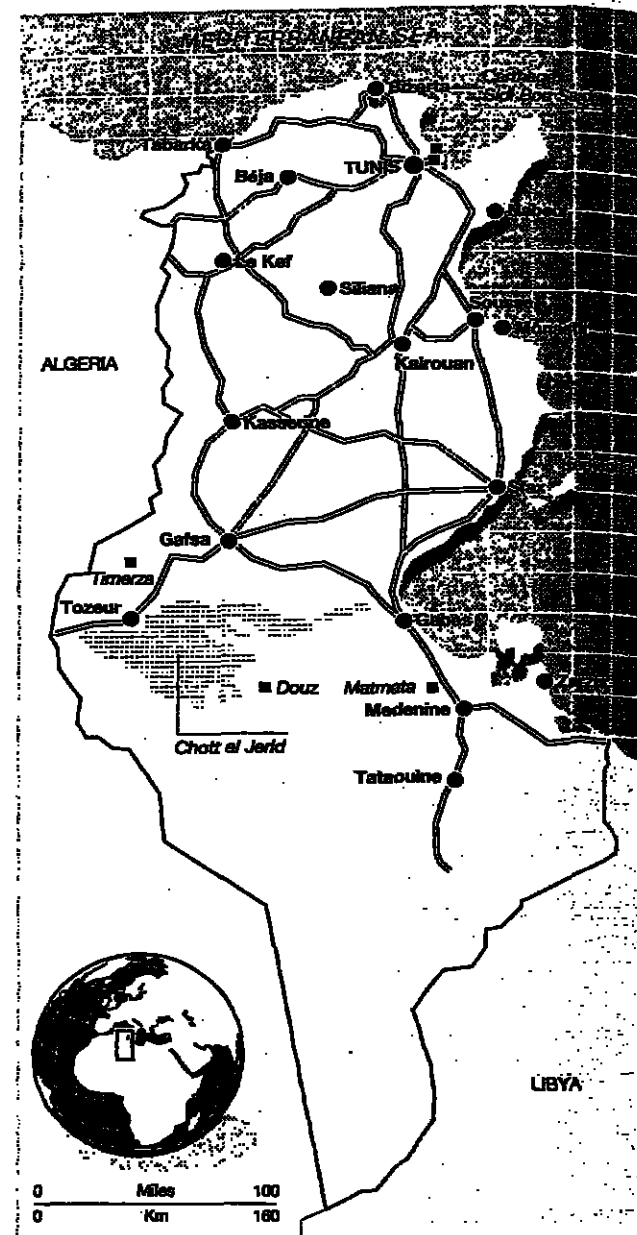
Tunisia is one of the state interests potentially under the hammer

with a complete overhaul and rationalisation of income and corporate taxes has seen the tax take rise considerably - from \$400m in 1991, for instance, to \$590m in 1992. Top marginal tax rates were cut on income tax to 35 per cent from 68 per cent, and on corporate tax also to 35 per cent from 45 per cent, but the coverage increased substantially while.

in the words of one banker, making the whole tax structure "brilliantly clear".

The budget deficit, as a result, has slimmed from 3.9 per cent of GDP in 1989 to an expected 2.3 per cent this year. The figure is expected to fall by 1992, the end of the present plan, to 1.2 per cent. As another measure of the government's disengagement from the economy, the government's budget as a share of GDP has fallen from 40 per cent in 1989 to 35 per cent this year.

A privatisation programme has begun with the sale of more than 40 state-held interests, although the World Bank and IMF are understood to be pressing the government to accelerate the process. Among the bigger state interests potentially under the hammer is Tunisair, the national carrier. However, Mr Tahar Badi Ali, the transport minister, says that for the time being the



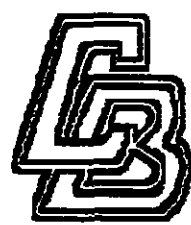
sale of up to 10 per cent of the airline's stock is being "prudently considered".

The one area where perhaps most remains to be done is in the development of Tunisia's banking industry and, more broadly, of its capital and financial markets. The latter, at present, extend little further than the interbank market and the country's small bourse, on which only 16 companies are traded.

The financial system has been given a considerable shake-up under the post-1987 administration, to clear away many of the dirigiste cobwebs accumulated under the more collectivist Bourguiba regime.

Central Bank controls on bank credit and investment licensing have been removed. Interest rates have been largely freed to the market, bank lending rates liberalised with a fixed margin but no ceiling on maximum rates. All remaining lending and deposit rate restrictions are set to go next year.

But the country's numerous domestic banks, many of them laden with bad debts to companies of dubious competitiveness, still have far to go - almost certainly by way of mergers, recapitalisations and restructurings - before they will be at ease in Tunisia's fast-opening economy.



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TUNISIA 3

Mark Nicholson considers whether the country will emerge as North Africa's natural banking centre

Offshore banks offer window on the world

TUNISIA does not leap to mind if one is compiling a list of the world's tax havens and offshore banking centres. But it is at least 17 years since the first offshore banks opened for business in Tunis, and the tax advantages are the equal of most of its better-known peers: Bahrain, Cyprus, the Channel Islands, for instance. So why is Tunisia so little known?

The question baffles some ministers, who argue that Tunisia not only offers all the usual offshore banking perks, but good infrastructure, close proximity to southern Europe, a highly convivial and congenial lifestyle and more besides. Yet, there are only six offshore banks established in Tunis.

The matter also puzzles some of the bankers. They believe part of the answer is government reluctance to sell Tunisia hard. "The government wanted to be able to give everything possible to foreign investors into the country, through the offshore banks," says one banker, "but without attracting any of the negative aspects associated with tax havens elsewhere."

Tunisia's offshore banks are there, essentially, to serve the Tunisian economy, runs this view. And for a host of largely external reasons, the sector has never quite fulfilled the more global ambitions held out for it by the government.

The sector has never quite fulfilled the more global ambitions held out for it by the government which passed Tunisia's first offshore banking law in 1976

which, in 1976, passed Tunisia's first offshore banking law. This law, as much as anything, aimed to offer a Tunisian shelter for fugitive banks and capital fleeing the civil war which was to end Beirut's primacy as the Arab banking centre of the 1960s and early 1970s. And, at the time, some 12 banks arrived, including Citibank and Bank of America. Within a few years, however,

Bahrain had comfortably wrested Beirut's mantle. Offshore banking there was fuelled both by the surge of petrodollars to recycle and by the need to finance Saudi Arabia's voracious appetite for expansion. Tunisia, out on a

limb from all that and without an equally dynamic regional Maghreb economy to compete, began to lose some of the early arrivals - Bank of America closed down, Banco de Brazil, National Bank of Abu Dhabi and others followed.

Tunisia's remaining offshore banks settled thereafter into their present role as the leading financial intermediaries for foreign investors. For a largely

inward-looking local banking system, spawned from the *dérogée* economy of the 1960s and screened from the outside world by the central bank, the offshore banks offered a window on the world.

They, alone, were legally entitled to offer exporters established as "non-resident" companies, but manufacturing out of Tunisia, hard currency transactions without prior approval from the central bank. They also tended to lead the way on trade finance. But the size and scope of the offshore banks came to be tied directly to the fortunes of Tunisia's economy.

Several banks carved out particular niches. Very broadly: BEST bank, a joint venture between the central bank and the Albaraka group, encouraged Saudi investment in Tunisia; North African International Bank focused on

Tunisian-Libyan trade finance; Citibank took a lead in treasury operations, in particular with Maghreb currencies; and Tunis International Bank developed private banking, trade and investment finance.

Both BEST and Citibank also evolved onshore operations. These are permissible under laws permitting offshore banks to deal in local currencies to the value of equity investments they have brought into the country. BEST bank, for instance, reckons on having brought in \$200m of such investment and has created an onshore dinar operation accordingly, within a further ceiling which permits offshore banks to take dinar deposits only up to 1 per cent of total domestic deposits.

But there is soon to be an erosion of the offshore banks' most distinguishing feature - their privileged position as for-

eign currency intermediaries. The government's decision to introduce current account convertibility of the dinar earlier this year now means that foreign currency transactions for import and export deals can be transacted without prior central bank approval, merely sub-

This will be, primarily, as the catalyst for the regeneration and internationalisation of Tunisia's still underdeveloped banking sector. By virtue of their previously exclusive international experience and a small salary premium over local banks, the offshore banks

Their most distinguishing feature - a privileged position as foreign currency intermediaries - is soon to be eroded as the dinar becomes convertible

sequent notification and record.

As the government moves towards full convertibility, pencilled in for 1996, the local banks will be increasingly exposed to direct international dealings and differences between the local and offshore banks will diminish accordingly. This, at least, is the hope and, indeed, the cue for the offshore banks' next role.

harbour the greater part of Tunisia's best bankers. As the country begins to develop its embryonic financial markets and accelerate its drive to attract inward investment, the offshore banks are positioning themselves to expand their products, particularly in investment and merchant banking.

The process is about to receive a small fillip in the

shape of Arab Banking Corporation's arrival as a fully-fledged offshore bank. The Bahrain-based bank's representative office of some years standing has won approval for offshore status and the bank is aiming eventually to add onshore facilities. ABC, which already has an office in Tripoli and is seeking another in Casablanca, is the biggest international banking arrival in Tunis since the seventies.

It is unlikely to herald a new era for Tunisia as an Arab banking capital to rival Bahrain. Local bankers point out, for instance, that Tunisian banks are almost without direct representation in the country's main trading markets and have some way to go before they can aspire to that. ABC's arrival, however, and, more particularly, the government's clear determination to kick-start the financial sector nevertheless suggest that, should the Maghreb countries succeed in putting their professed ambitions of economic union into more effective practice, Tunis will emerge as North Africa's natural banking centre.

Mark Nicholson examines how the country is selling itself to the world

Inward investment drive is being stepped up

NOTHING is more vital to Tunisia's economic ambitions than substantially raising levels of direct foreign investment.

In this respect, Tunisia is being ambitious. To succeed in keeping GDP growth at a real 6 per cent a year until 1996, the end of the present development plan, the government has set itself the target of tripling inward investment, outside the hydrocarbons sector, from around \$70m disbursed a year to at least \$200m.

Only growth at that pace will create the additional 5,000 to 10,000 jobs a year needed to accommodate annual entrants to the workforce. And, in the view of many bankers, only foreign investment in export industries can generate this.

There is nothing new about Tunisia's investment drive, which began in earnest during the early 1970s when a previous government encouraged the creation of "non-resident" exporting companies through tax incentives and foreign exchange privileges.

But with the arrival of President Zine al-Abidine Ben Ali and the post-1987 *changement*, with its attendant flurry of liberalising economic reforms, came a change of gear.

Import, tariff and price controls have been dropped or relaxed. Investment licensing has been abandoned. A ministry of co-operation and foreign investment has been created to centralise the government's sales pitch. And early this year the government took the first steps towards making the dinar convertible.

The government has taken the first steps towards making the dinar convertible

Introducing current account convertibility for imports and exports.

The government's next, imminent, step will be to produce a unified investment code to replace separate sectoral codes covering manufacturing, services, tourism and agriculture - "at the moment we're confronted by a library of texts," says one Tunis banker. The code

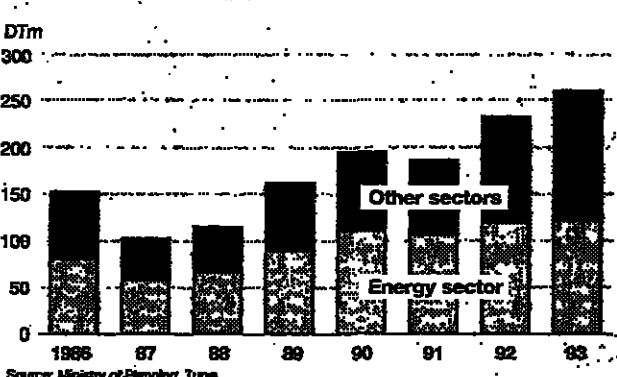
covering hydrocarbons, which is substantially the biggest draw for foreign investors, will remain in place.

"We are producing a consistent and coherent institutional environment," says Mr Mustapha Nabli, planning and regional development minister. "We want to end changes in the environment. We're saying, with this code - that's it."

The new code, which Mr Nabli says should be finished and in place by July, also aims to cover areas, like transport and education, not previously covered by any sectoral code. It should also encourage regional development and, particularly, add incentives for investment bringing technology transfer.

However, the new code is unlikely in itself to offer a particular incentive in a country which foreign investors say has always offered a clear, efficient and systematic institutional framework for investment. Tunisia's main selling points will remain its political

Inward investment



stability, its proximity and good access to the EC market, and its cheap labour costs.

This combination has been rewarded by a steady flow of Italian, French, German and Belgian investment, notably in tourism, textiles, leather goods, and electrical and mechanical products. The resulting growth in tourism and textiles is particularly marked. There are, for

instance, now more than 160 separate German manufacturing investments in Tunisia, covering companies employing 22,000 people. Exports of textiles and leather products to Europe alone, to illustrate further, made up 41 per cent of Tunisia's total exports in 1992.

The textile sector could receive a further, considerable boost should the board of Sara Lee, the US clothing and foods group, decide this month to proceed with a possible \$60m investment in a spinning and weaving plant in Tunisia. The chief rival for the proposed investment appears to be Morocco, which has been lobbying hard to bring the US group to its corner of North Africa.

Indeed, all such major commitments from multinationals are likely to be increasingly hard won. Moreover, Tunisia's retention of keen competitive advantages against its immediate neighbours, the countries of eastern Europe and the former Soviet Union and the Asian "tigers", is likely to pose the greatest challenge to the government over the next few years, committed, as it is, to increasing, at the same time, a politically vital set of social policies.

On sheer wage costs, Tunisia remains competitive. A recent report by the Tunisian-French Chamber of Commerce quoted

findings that Tunisia was a substantially cheaper place to make some garments than Poland, Portugal, Turkey and Hong Kong.

Nevertheless, unlike many of its rivals, Tunisia maintains a minimum guaranteed industrial wage which is subject to increases in line with prospective inflation. "Tunisia is still

Wages are competitive but, unlike those of many rivals, will rise with inflation

competitive," says one German industrialist. "But they have to pay attention."

Some foreign investment agencies are watching closely, for instance, the development of the new investment code. Among the measures under discussion is the granting of a 10-year tax holiday for new manufacturing enterprises - but this would, in fact, be

something of a disincentive given that most present investments are granted an indefinite tax holiday.

"We can understand that the government wants to make the code as economically beneficial as possible for the country," says a German investor. "But it has to remain as profitable as possible for us."

The Tunisian government is hoping, however, to move beyond the simple appeal of low wages and emphasise instead the relatively high education of Tunisians. "Workers are not just productive here, they have shown they can also produce high quality," says one diplomat.

While the country is scarcely going to turn down further investment in, for instance, textiles, it would rather see companies look to Tunisia to develop higher technology products, service industries or computing and software.

"Tunisia cannot count on remaining a low-wage economy," says Mr Nabli. "The level of living here is continually rising and our competitive strengths changing. We need above all for our economy to absorb more sophisticated technology."



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TUNISIA 4

WHATEVER the map suggests, there is little doubt to which regional bloc Tunisia belongs economically. Last year Tunisia bought 71 per cent of its imports from the EC, to which it sold 77 per cent of its exports. The respective figures for trade with its Maghreb neighbours were 3.6 and 7.9 per cent. And much of that was with Libya.

For these commercial reasons alone, Tunisia's forthcoming negotiations with the European Community on a fresh co-operation accord are likely to overshadow whatever diligent efforts the government may make - and recently has certainly been making - to create something meaningful out of the four-year-old Arab Maghreb Union (which embraces Mauritania, Morocco, Algeria, Tunisia and Libya).

But Europe is Tunisia's touchstone near-neighbour for cultural reasons, too. For all its religious distinction, Tunisia is a deeply Mediterranean country and the aspirations of its swelling and sophisticated middle classes are little different from those of its neighbours on northern shores. "It is very important for Tunisia, and particularly for the government here, to feel itself a south European rather than simply a north African country," says one diplomat.

For these reasons, therefore, Tunisia and the EC look set to

tie their knot more tightly by negotiating onwards from the financial protocols which have guided relations between the two since 1977 to a fuller accord. "We want to enlarge our relations to a complete and total collaboration," says one foreign ministry official. "Because we are condemned to live together, we want to make sure we do so as happily as possible."

By the end of the fourth and

It is very important for Tunisia, and particularly for the government, to feel itself a south European rather than a north African country

latest Tunisia-EC protocol in 1996, the community will have provided direct aid in the form of grants and credits worth around Ecu743m (\$898m). A clutch of additional agreements have also been reached, covering co-operation in science and technology, the environment, telecommunications, energy and many other areas.

But most important for Tunisia will be the negotiations on trade. Eventually, both sides want to see the creation of a free trade zone between the EC and Tunisia, but in Tunisian eyes this is a long way off and much needs urgently to be negotiated well before then. Under the most optimistic



Tunis city centre in spite of its geographical position the country belongs economically to Europe

Mark Nicholson discusses trade relations with Europe

Mapping out an EC future

assessments of some officials, the country will be in a sufficiently sturdy economic state to offer fully free trade with the EC only by about 2010.

Under the format for the negotiations, four rounds of "exploratory conversations"

have now been concluded to establish the basic technical issues covering an eventual accord. Pending a mandate from the council of ministers, negotiations are likely to begin at the start of next year on a text which, with luck, could be

ratified by the Twelve and in place by 1996.

The EC is following a parallel course already in talks with Morocco and hopes to add Algeria to the process as soon as its political stability will allow. A bloc-to-bloc approach

from the EC to the Arab Maghreb Union has been a non-starter for several reasons, not least among which is Libya's continued diplomatic isolation over the Lockerbie affair.

But although both EC offi-

cials and their Tunisian counterparts consider overall relations to be excellent, mutual understanding high and the will to reach an accord clear, there are some very tough talks ahead. To begin with, say Tunisian officials, the EC will have to stump up considerably more aid if it is to help put Tunisia on a steady enough economic footing to consider opening its economy further to EC goods. "There's a heavy

The thorniest issue between the EC and Tunisia will be trade, particularly in agricultural products, and most particularly, olive oil

price to pay and an effort to make," says one official. "We'll make the effort, but the community must help us to pay."

The thorniest issue, however, will be trade, particularly in agricultural products, and most particularly on the issue of olive oil - Tunisia's most important agricultural export. At present, Tunisia is permitted a quota of 48,000 tonnes of olive oil under an agreement which expires at the end of this year. A fresh transitional agreement covering 1994-1995 is under discussion now, and Tunisia is insisting on a quota of at least 80,000 tonnes.

By Tunisian standards that is a modest request. In a bad

year the present EC quota would account for less than half Tunisia's olive oil crop. In good years, like 1991-92, the country produces 270,000 tonnes. Furthermore, agriculture is one of Tunisia's most important employers - accounting for perhaps 40 per cent of the workforce - and environmentally vital crops. Olive trees are among the country's best defences against desertification.

But olive oil is also a key crop for almost all southern EC states, particularly Italy, Portugal, Spain and Greece. As a result, the present quota looks likely to stay more or less in place, pending agreement on the wider accord. "The Tunisians are saying to Europe, open up your olive oil market and the Europeans are saying open up all the rest of your markets first. Neither can happen immediately," says one diplomat.

However tough these interim talks prove, though, Tunisian officials are quietly confident of the eventual outcome. The "pragmatic march of Europe" in the view of one senior official, will soon extend it across the present Efta countries and many in eastern Europe. "Eventually," he says, "membership of Europe will be a question of purely economic rather than geographical criteria. At that point we will inevitably be part of a broader Europe."

Francis Ghiles examines the future of the oil and gas sector

Bright hopes for energy

TUNISIA is, by Middle Eastern standards, a very small producer of oil and gas - 5.19m tonnes of oil last year and 231,000 tonnes of oil-equivalent in gas.

However, the royalties, in the form of gas, Tunisia receives from the trans-Mediterranean pipeline that carries Algerian gas to Italy, gives it access to three times as much gas as it produces.

The share of natural gas in meeting the country's growing requirements is steadily increasing.

Two factors will ensure that the share of gas in meeting Tunisian energy requirements continues to grow. First is the doubling, over the next five years, of the volume of Algerian gas Italy has contracted to buy, which spells a doubling of royalties to Tunisia; second is the development, by British Gas, of the Tunisian offshore Miskar gas field, the production of which will meet domestic requirements.

The last four years have also witnessed a surge of oil exploration and development as more international oil companies are attracted by the favourable environment Tunisia offers, including tax incentives, stable government and pleasant living conditions.

Conoco's senior director of exploration, Mr Alfred J. Boulos, said recently: "Tunisians are intelligent and worldly wise, listen to reason and logic and take positive steps whenever justifiable." Such words well describe senior oil gas officials, be it in the state companies or in the ministry of economic affairs.

In the middle 1980s, such people were faced with having to meet rising domestic energy

consumption when production from the country's two leading oilfields, El Borma and Ashart, was declining. Consumption looked as if it might overtake production. New legislation was introduced in 1987. In particular, faster cost-recovery in royalties starting as low as 2 per cent were aimed at promoting the development of low- and medium-sized fields that had been discovered but not exploited in the decade or so before.

After five years of decline, production picked up in 1988 and has grown modestly but steadily ever since. The past two years have been marked by three important developments. The annual number of new wells drilled on and off-

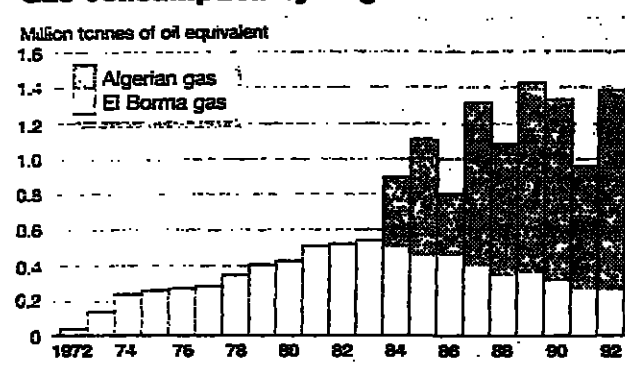
shore has increased threefold to 22, the figure of investment by foreign oil companies doubled over the same period from \$70m to \$140m. The aim is to keep drilling activity around 20 annually to the end of the decade. Despite the rising consumption of energy, the increased exploration activity has just about maintained a reserve to production, at current levels ratio, of about 12 years.

The second important development was the agreement in December 1991 between British Gas and Enterprise Tunisienne d'Activites Pétrolières (ETAP), whereby the UK company decided it would spend \$580m developing the offshore Miskar gas field. This field was discov-

ered 15 years ago by the French company Elf and inherited by British Gas when it bought the US company Teneo in 1988. Among the reasons that made a gas field interesting in 1991 - when it was unattractive to develop in the mid 1970s - were the fast development of Tunisia's domestic gas requirements. Gas today accounts for between 17 and 33 per cent of the country's energy requirements, depending on how competitive its price is with heavy fuel oil to fire power stations. The construction of combined cycle power stations, which produce electricity from gas, is increasing the need for gas.

The Tunisians did much to lure British Gas. As production

Gas consumption by origin

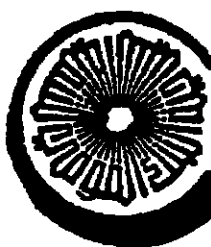


from Miskar will be too modest for export purposes, British Gas has been guaranteed the sale of all the gas it produces to the Tunisian domestic market. The gas will be paid for in hard currency and British Gas will be allowed to transfer profits out of the country. Further advantages include royalties which, since the law was changed in 1985-7, are now calculated on a flexible basis. They can be as low as 2 per cent or as high as 15 per cent depending on the profitability of the operation. Tunisian flexibility has proved worthy of the country's Carthaginian forebears.

Meanwhile, the 10th anniversary of the trans-Mediterranean gas pipeline was celebrated last month. The throughput capacity of the pipeline is being doubled to 24bn cubic metres and the work will be completed this summer.

The passage of this pipeline has become a central feature of the energy policy. Tunisia's reputation, and for that matter Algeria's, has been enhanced by the complete absence of disruption to the gas flow since operations started in 1983. There have been no disputes on tariffs or prices. No political dispute between Tunisia and Algeria has marred the operation. The seller has succeeded on more than one occasion in altering the price formula, but the flow of gas has not been interrupted.

The doubling of the Trans-Mediterranean is a vindication of the security of supply. It has proved a key factor in helping to launch the western trans-Mediterranean line, which will carry Algerian gas to Spain across Morocco and under the Straits of Gibraltar.



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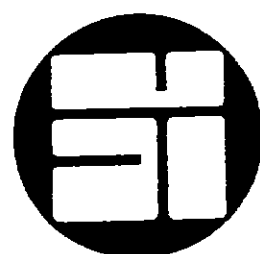
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A QUIET revolution is afoot in the Tunisian countryside. Production of a wide range of foodstuffs - cereals, olive oil, fruit, vegetables, meat and dairy products - is increasing. The variety and quality of produce on offer in local markets and for export is growing.

Four consecutive years of good rainfall have played their part. But so have government policies, which in recent years have lent greater support to farming than at any time in the past 30 years.

Several factors lie behind what amounts to a rebirth.

■ Long-standing efforts to improve farming techniques have borne fruit.

■ Considerable efforts have been made to mobilise water resources.

■ Life on the land is less harsh than before, thanks to improved roads, electricity and better access to education and health in remote areas.

■ The state is divesting itself of some of the land it has held since French farms were "nationalised" in 1964. These

Francis Ghiles reports on a quiet revolution under way in the country

Agriculture is reborn

500,000 hectares of state land are among the richest in Tunisia.

Wheatfields in Tunisia no longer sprout poppies, which made them attractive to visitors in the spring but suggested low yields and poor use of fertilisers. The growing use of the latter has proved a

The olive tree remains the best instrument to stop the advance of the desert

key factor in improving yields and overall quality. Farmers are also mastering irrigation techniques, at a time when the amount of land under irrigation is growing fast. Improving their mastery of water is essen-

tial in a country whose resources are scarce and which suffers drought at regular intervals.

The state has given strong backing to efforts to build dams. In recent years, however, small earthenware dams have been promoted, which are cheaper and easier to build and play an important role in arresting soil erosion. Erosion remains a serious problem that is being addressed in a number of ways, notably the planting of fruit trees in northern and central Tunisia and the renewal of the vast olive groves - the olive tree remains the best instrument to stop the advance of the desert in central Tunisia.

Life in the countryside is also improving for those who till the land. For more than

two decades after independence life in the towns, with access to good facilities in education and health and subsidised food, was more attractive than tilling the land. As Tunisia liberalises its economy, allowing the price of foodstuffs to rise and gives farmers a better income, that balance is slowly shifting.

The leasing over the past three or four years of 100,000 hectares of some of the best land in the country, for up to 25 years to private investors, is introducing more capital intensive and modern crops to the land. These leases are renewable and joint ventures with foreign companies are being actively promoted. During the socialist experiment in the 1960s, these state domains were badly mismanaged. Then,

and for the following ten years, the prices producers could charge were frozen, basic foodstuffs increasingly subsidised. The domains being leased can be large, such as a 1,000 hectare domain at M'Raisa, where Shell, in partnership with private Tunisians, is growing seedless grapes for export. Other domains have been split into smaller units with leases often granted to agricultural engineers who are growing crops new for Tunisia - winter strawberries and melons, asparagus and mushrooms. Some are raising rabbits, an unheard of activity here until recently, which find ready markets in the many hotels along the coast.

The current improvement can be traced back to the reforms aimed at liberalising



Tunisia has the finest collection of Roman mosaics in the world

the management of the country's economy introduced in 1986. Prices paid to producers have, since then, improved 40 per cent on average. The cost of inputs has also shot up; fertilisers by 60 per cent, seeds a more modest 25 per cent and water 9 per cent annually. As subsidies on basic foodstuffs are reined in, the result is that resources are being reallocated towards a key sector of the economy in more rational fashion. The results are visible.

In 1991-1992 Tunisia enjoyed a positive food balance for the first time in two decades. Barley and hard wheat are in sur-

plus, though a deficit remains in soft wheat. The amount of rainfall still dictates the size of the cereal crop, which can vary from 300,000 tonnes to 2.4 million tonnes. In a good year, foodstuffs account for 10 per cent of all imports, a figure that rises sharply in years of drought.

Some sectors have not followed the progress of others. Vineyards have suffered until very recently from under investment. A few years ago Tunisia nearly ran short of wine during the summer season - a Moslem country importing wine would have

been a real embarrassment for the authorities. Had joint ventures with foreigners been encouraged earlier, Tunisia today could be exporting high quality wines.

Olive oil presents a unique difficulty, as the European Community imposes quotas. Italy is not shy when it comes to mixing Tunisian olive oil with its own and selling it as Italian oil. The production of olive oil is the main source of income for 100,000 families and helps provide income for 1 million people overall. It also helps the environment - olive trees are the best way of preventing erosion.

Two constraints, however, hamper the further development of farming. First is the ever-growing fragmentation of ownership, with 80 per cent of all farms boasting 20 hectares or less. The result is often poorly capitalised farms and a major brake on progress. The other constraint is age - the average Tunisian farmer is over 50. This weakness can to some degree be remedied if farming in the newly leased state domains is made more attractive.

As Tunisia is ever more self-sufficient in many products and seeks to export more food it is confronted with new difficulties. EC quotas are one, but also the lack of regular high quality control, the backwardness of packaging and marketing methods. The next battle will be fought on these fronts.

The 55m olive trees in Tunisia occupy one third of all arable land, writes Francis Ghiles

Oiling the wheels of the workers

THE olive tree has been a source of wealth, a symbol of peace and prosperity since time immemorial around the Mediterranean. In Tunisia, olives were grown well before Carthage was founded by Queen Dido in 814BC and the very name Zaytuna Mosque, which dominates the old medina of Tunis and houses one of the oldest Islamic universities in the world, means "olive tree". The production and trading of olive oil remains a quintessentially Mediterranean phenomenon.

Some olive oil is produced in Argentina and California but Italy, Spain, France, Greece and Tunisia - the fifth largest producer - account for the bulk of the 1.7m tonnes produced in the world every year. Of this figure, 75 per cent comes from southern Europe, the balance from Tunisia, with 7-10 per cent,

Jordan, Morocco and Turkey.

Three sets of figures underline the central importance of this sector to the Tunisian economy. More than one third of all farms in the country derive more than half their income from the production and sale of oil; nearly 1m Tunisians draw part of their income from the same source. Between 1987 and 1992, olive oil accounted for 8 per cent of the value of all Tunisian exports and 42 per cent of the value of exports of foodstuffs.

The 55m olive trees the country boasts occupy one third of all arable land, notably in the arid central provinces around the city of Sfax where the poor soil could not accommodate other crops; the trees also provide one of the best means of fighting desertification. A further advantage is that the number of jobs generated by the olive oil industry

puts a brake on migration to the cities.

The production of olive oil does, however, fluctuate strongly from 50,000 tonnes in years of drought to 270,000 tonnes in exceptional years such as 1992. Domestic consumption accounts for about

All Mediterranean countries recorded a bumper crop, something which occurs once in a generation

40,000 tonnes annually. The balance of requirements, about 110,000 tonnes, is made up by importing much cheaper sunflower and colza oil. Olive oil is four times as expensive as the mixture of olive and sunflower oil most Tunisians use for their daily requirements. Tunisia cannot export all its

surplus oil because its annual export quota to the EC is only 46,000 tonnes. Nearly 90 per cent of Tunisian exports go to EC countries. Italy alone absorbs more than two-thirds of Tunisian oil exports to the EC. Tunisia pays a tariff of 25-10 per 100 kilograms of olive oil, compared to ECUS55 for Moroccan and Turkish exports, for which there is no quota.

The glut of olive oil which followed the 1991-1992 crop has made life exceptionally difficult for the Tunisian Office National de l'Huile, which has a monopoly on collecting olive oil in the country and manages virtually all exports. World production last year reached a record 2.2m tonnes, as all Mediterranean countries recorded a bumper crop, something which occurs once in a generation.

Tunisia's record crop was not simply the result of excellent weather conditions but because of the improved farming methods and replanting of olive trees encouraged in recent years. Producers have also been encouraged by the prices paid by the Office National de l'Huile which have increased by half since 1987-1988.

The office has been obliged to stock olive oil and has been forced to borrow from Tunisian banks at market rates. Since 1990, the office no longer enjoys access to subsidised loans, part of the overall policy of rationalising economic management. Private companies have begun exporting olive oil but the main burden of selling abroad still rests very much with the office.

The reason why Tunisia cannot gain a bigger quota with the EC concerns the subsidies EC members are allowed to give their own producers of olive oil. Subsidies are extended to primary producers

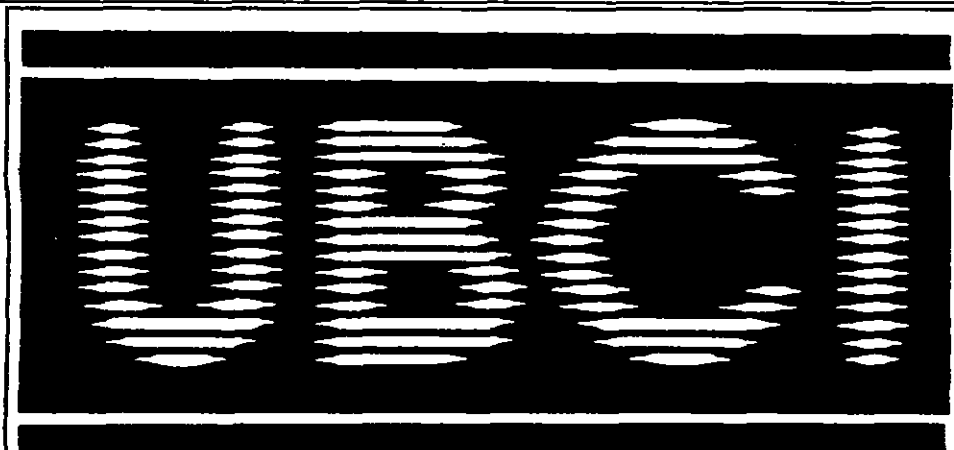
and to the olive oil processing industry.

Subsidies for the export of olive oil outside the EC are equivalent to 50 per cent of the value of exports and the EC has even started promoting the consumption of olive oil in such far away markets as Japan and Australia. Italy is also widely believed to provide bogus figures for its own production of olive oil. It imports Tunisian oil which it re-exports under Italian labels, notably to the US.

In its annual report for 1991, the EC Court of Auditors criticises the manner in which subsidies to the olive oil industry are distributed within the EC and suggests it is "unreliable". It also criticises the manner in which the International Olive Oil Council, which was set up in 1986, is managed. The EC provides 74 per cent of the budget of the Olive Oil Council. The EC Commission, however, has rejected such criticism.

The difficulty the Tunisians have in exporting more of what, for them, is a vital crop, illustrates the conflict of interest between Maghreb and southern European countries which centres on foodstuffs produced on both shores of the Mediterranean. But Tunisian officials argue that if the real figures of EC production and subsidies were available, their country would be able to gain an increase in its quota without damaging the interests of EC producers.

The broader question is whether it is morally justifiable for the EC to close its eyes to certain practices among its own members and at the same time limit imports from countries in North Africa who desperately require funds for projects aimed at stopping the advance of the desert and halting the exodus from the land.



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TUNISIA 6



Perfect Shangri-la: the Tamerza Palace in the desert is one of the most luxurious hotels in Tunisia

Francis Ghiles on the challenges of developing the southern provinces

New source of wealth from the sands of the desert

DEVELOPING THE southern provinces of Tunisia - running from the Algerian frontier around the Shott El Jerid, the salty flatlands which, during the hot summer months turn into a hard salty crust stretching for miles, to the port of Gabes, opposite the tourist island of Jerba - presents a unique challenge.

The western provinces of Tozeur, Gafsa and Kebili traditionally belong to the *bled siba*, the land of dissidence whose inhabitants led a nomadic life until the 1960s and seldom paid taxes to the rulers in Tunis.

Though often illiterate, the inhabitants of the Jerid and Nefzaoua region south of the Shott had a rich tradition of urban life and boasted one great source of wealth, the *deglet nour* or date of light, considered by connoisseurs the finest in the world.

During the past few years

tourism has emerged as a new source of income but, even more important, is the development of fruit and vegetables such as melons and tomatoes, which are grown in greenhouses using the many local hot water springs and whose produce can be shipped to Europe between mid-November and mid-May when no EC quotas or tariffs impede their entry.

If not carefully managed, however, the fast development of such crops and the spread of new hotels could seriously threaten the environment and the balance of human resources of a fragile desert region.

The new face of Tunisian agriculture can be seen near Gabes, where a Tunisian agricultural engineer, Mr Nejib Zarrouk, has established a joint venture with a group of French businessmen who grow

melons near Chinon in the Loire valley and market them through a company called Derby. Half the DT1.7m capital, of which DT500,000 is so far paid up, is provided by the so-called Berégovoy line of subsidised credit and administered in Tunisia by France's Caisse

An ambitious deep water drilling programme has revealed undreamed of riches in water

Centrale de Cooperation, the rest is spread among Tunisian banks, most notably the Tunisian Saudi Development Bank, Stusid.

A long lease for the necessary three hectares has been secured from the Tunisian state and in 1992, the first year of activity, 220 tonnes of tomatoes and 76 tonnes of high

quality melons were exported to France. Figures will more than double for the second season ending in May.

The Chenchou success story is a pointer to the future as the Tunisian state is leasing an ever growing surface of its 500,000-hectare domain, foreigners are allowed to invest in land and bright young Tunisian engineers are keen to start up their own business.

Thanks to an ambitious deep water drilling programme financed by the Gulf states and Saudi aid, undreamed of riches in water have been discovered. As the standard of living increases and more people establish irrigated crops, the authorities face two problems. The first is how to control irrigation schemes that are increasingly set up without permission, the second is how to drain water after it has been used.



Disappearing skill: dates must be hand-picked

In traditional oases the date palms and the fruit and vegetable which grow below were set up on slopes to allow the water to drain away. Faulty drainage can have a lethal effect as it allows salt to accumulate, a sure way to sterilise the land and kill date palms.

Ensuring proper drainage is essential, particularly at the 1,152-hectare oasis of Rjim Maatoug, a new oasis being created west of Kebili and financed by EC aid worth DT15m, Italian aid worth DT7m and DT10m worth of Tunisian funds. The high cost of the Rjim Maatoug project is justified in terms of the broader security of an area close to the Algerian frontier. When completed, the project will help settle local nomadic tribesmen. The project is being managed by the army, together with civilian authorities, a combination that in the harsh

and difficult to reach surroundings appears to be working well.

The fast development of tourism poses a different challenge. Quite apart from the danger of spoiling a unique landscape with hotels whose style jars surrounding build-

The skill of scrambling up date palms is fast disappearing among young boys

ings, hotels attract labour away from farming and that means essentially looking after date palms. This is a very labour intensive and skilled job. The palms must be individually pollinated by hand, the dates hand-picked. The sight of young boys scrambling up date palms may be picturesque. Such skills, however,



Basket of plenty: the Nefta oasis is one of the biggest date producers

are becoming less available, but essential for future crops.

A further challenge is to improve the marketing of dates abroad. Despite the high quality of the *deglet nour*, half the dates the Jerid produces are marketed through a few traders in Marseilles, depriving Tunisia of direct access to many markets. Packaging is way behind modern international standards. In other words, Tunisia lacks access to a good international distribution network. Dates are the kind of farm produce from which the country should be earning good foreign income. They are labour intensive and do not compete with any EC equivalents.

Many older oases have been virtually abandoned, their intricate *foggara* water channels ill kept. If not abandoned, inhabitants of such remote places are often not keen to

work in hotels.

In the mountain oasis of Tamerza due north of Tozeur, the only local baker refuses to deliver bread to the Tamerza Palace, a hotel which opened last year. On Sunday he remains closed forcing the hotel to send for its bread 20 kilometres away in Redeyef. People from Tamerza show no interest in jobs provided by the hotel, but small settlements further afield are less disdainful of such jobs.

Developing this remote area of Tunisia presents a unique set of challenges. Three constraints, which are intimately related, touch on water resources, human skills and the environment. They must be taken into account if serious damage is to be avoided. Mistakes here carry a heavier price than in the more temperate northern or maritime provinces.

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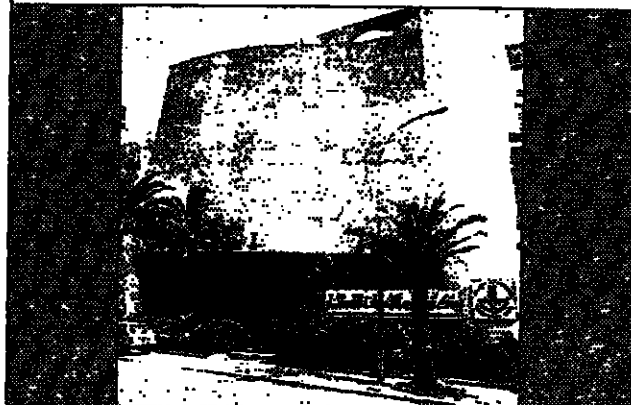
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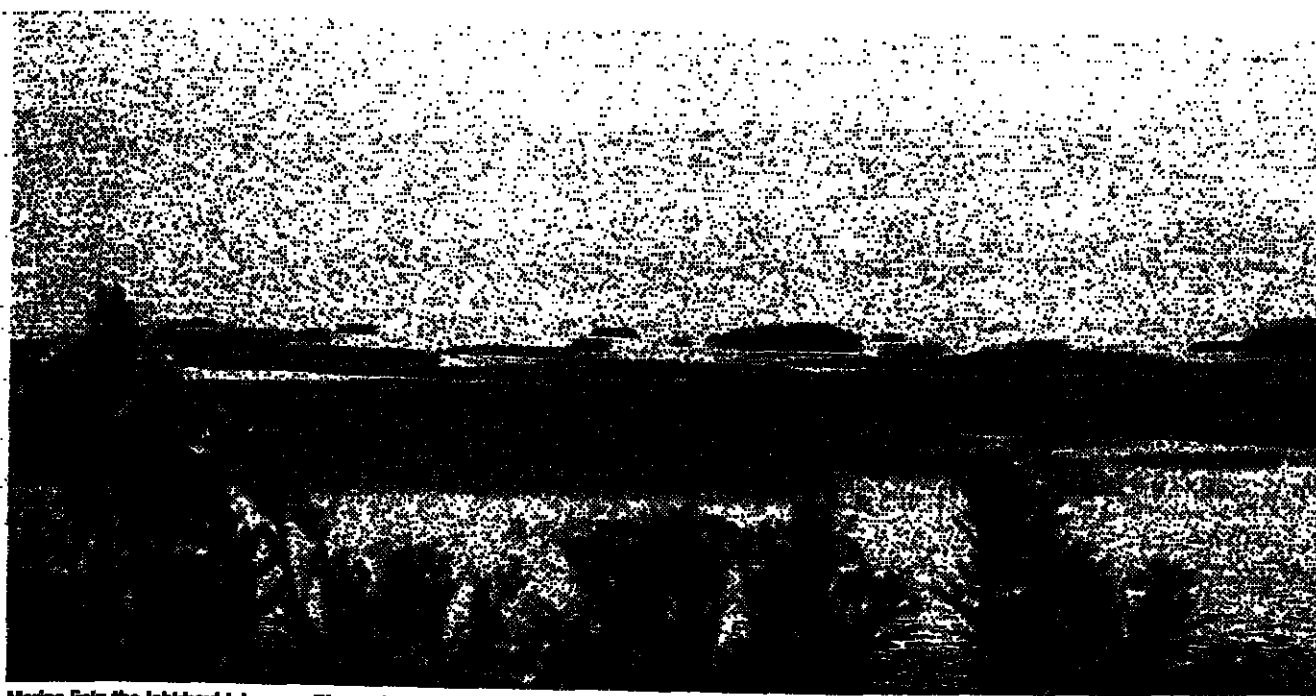
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FT SURVEYS

TUNISIA 7



Marine link: the Ichkeul lake near Bizerta is connected to the sea by a wide canal making it a prime site for industry

A fresh generation is coming of age in Bizerta, says Francis Ghiles

New age dawns in old town

FIVE years after Tunisia gained independence from France, in 1956, the town of Bizerta was the scene of a bloody battle which pitted General de Gaulle against President Habib Bourguiba. Mr Bourguiba was keen to regain control of the important naval base France had built after it occupied the country in 1881, and which it was unwilling to hand back.

For 75 years, this former privateering port ranked, along with Mers El Kébir in western Algeria and Toulon, as one of France's key naval bases. The town retains most of its colonial architecture, a port dominated by old fortifications, and its old "medina" (Arab quarter). Only four hotels have been built on the nearby corniche - tourism has not ruined the town.

Bizerta was cosmopolitan thanks to the mix of tens of thousands of French army and navy men and officers, Sicilian fishermen, Maltese handymen, a smattering of Greeks and

White Russian exiles fleeing the 1917 revolution. Unlike Tunisians elsewhere, the people of Bizerta did not have to fight to make a living. Few of them became doctors or lawyers. They did not much care for Mr Bourguiba who did not bother to hide his contempt.

Times are changing and no man could symbolise the new mood better than Mr Mohamed Ben Rejeb, who was appointed governor two years ago. Mr Ben Rejeb is a hands-on governor, a tireless fighter who seems to be present on every front coaxing people, pushing others, getting Bizerta's needs noticed in the capital which, psychologically, still feels more distant than the 80 kilometres separating the towns.

Three factors explain this awakening of Bizerta and its rich farming hinterland. First, a new generation of "Bizertins" is coming of age, well-educated people who want to invest in industry and farming. They have no nostalgia for an age they never knew. They know

that the port and other industrial facilities, many still unused, which dot the town and the shores of the large inland lake behind Bizerta - connected to the sea by a wide canal - offer prime industry sites. A free trade zone, an idea which appears to make sense, both because Bizerta is strategically placed between the eastern and western Mediterranean and because Tunisia is liberalising its economy and actively promoting foreign investment, is expected shortly. This zone will be managed by a private joint venture associating Tunisian and foreign capital. A second trade zone is being set up in the southern port of Zarzis, close to the Libyan frontier.

The industrial sector is strong and varied. There is the country's primary oil refinery, steelworks at nearby El Fouled, a string of textile factories - many started in the mid-1970s by German and French companies which import the fabric that is then re-exported as jeans, shirts and hosiery. Expensive "Van Lack" German shirts are made here.

Bizertex manager, Mr Feridand Terburg, who has lived in Bizerta for 15 years, is looking forward to the company soon opening its third factory in the town. He praises his work-force's standard of education and professional skill, saying that 18 per cent of the 500 women working in the factory are involved in quality checking. He feels the political stability Tunisia enjoys, the three-year agreements negotiated between the trade unions and employers' federation, provide a steady environment where he can work. He adds that government officials are more willing to consider changes to existing rules and regulations than they were a decade ago.

More ambitious plans are afoot in the farming town of Mateur, just inland from Bizerta, where Tunisia's leading producer of electrical cables, the Chakira Group, has started

production of electrical harnesses for cars in a plant where, until 1986 when it went bankrupt, Renault cars were assembled. The Chakira group already produces harnesses in another factory in Tunisia, part of a joint venture with General Motors.

Other companies in the group are involved in manufacturing printed circuits and high-voltage, medium-voltage and low-voltage power cables. Other activities include manufacturing kitchen equipment such as high-pressure cookers and "Tefal" saucepans. Such a company may be small by international standards but it is symbolic of the internationalisation of the economy. Indeed, it is investing abroad and will this summer start producing electrical harnesses in Portugal and in Egypt.

The region of Bizerta is also attracting investment in farming. Natural advantages include more regular rainfall than elsewhere in the country and good land. Ninety per cent of all arable land in the region is in the hands of private farmers, which means the mismanagement of the vast public domains created in the 1970s out of land expropriated from former French colonies has been avoided. What state land there is being conceded on long leases to private companies.

Typical of new farming businesses is the joint venture established by a Tunisian company with one of Italy's largest plant and flower companies, Resteya Italia, whose home base is Treviso, north of Venice. Geranium mother plants are imported to Bizerta in the autumn and cuttings are taken a few months later and rebudded. When they have grown roots, they are flown to Treviso. Similar attempts are being made with artichoke plants which, if successful, could prove lucrative. Such ventures can make use of the region's temperate winter climate and cheaper labour costs than in Europe.

Memories of the Jewish past are being unveiled, says Francis Ghiles

Covers come off real history

EIGHTEEN months after succeeding Mr Habib Bourguiba as Tunisia's second president, Mr Zine el Abidine Ben Ali paid a state visit to France. All the usual trappings of a state visit were in evidence, including a few hours spent at the Saint Cyr Coetquidan military academy which the young officer had attended 30 years earlier. More unusual was the restaurant at which Mr Ben Ali chose to have dinner on his first night in Paris - Chez George de Tunis, Rue Montmartre, is a typically Tunisian Jewish restaurant, of which there are many in this arrondissement of Paris.

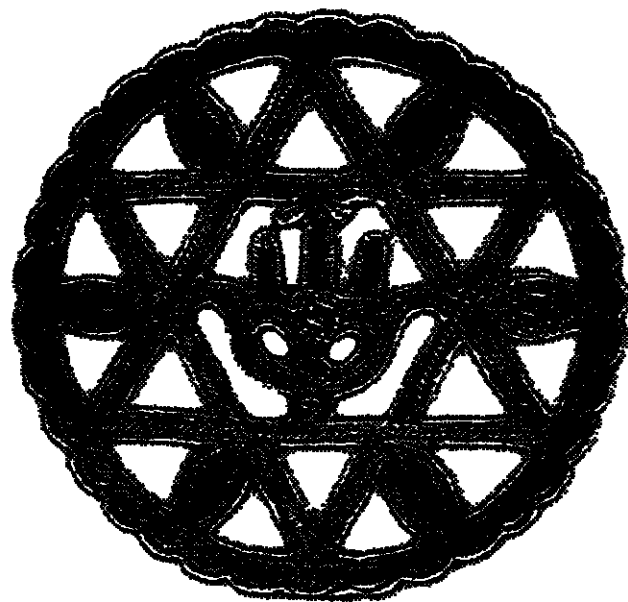
Last September, the chief rabbi of France, Mr Joseph Sitruk, was invited back to the country where he was born. The rabbi was shown round the presidential palace by the head of state in person and the news was featured on prime time television.

This gesture marked a break in the arabisme of the past two decades. It brought back memories of Mr Bourguiba's bold suggestion, made in Amman in 1965, that only when the Israelis and the Palestinians sat down together would there be any hope for peace.

To mark the fifth anniversary of his accession to power last November, the president attended a ceremony where Tunisia's history was evoked with a greater measure of truth than ever before. Never since 1956 had Tunisians been reminded that a majority of their countrymen were Christians until just over 1,000 years ago. The vast majority of this Sunni Moslem country had no idea that Shi'ite Islam had flourished under the Fatimid dynasty which ruled in the ninth and 10th centuries. The menorah candlestick was paraded, a reminder of the more than 2,000 years of Jewish presence in the country.

Tunisia's personality is complex, its richness lies in its diversity. Legend has it that the Ghriba synagogue of the southern island of Jerba was built around a stone prised from the eastern wall of King Solomon's temple in Jerusalem brought by a group of Jews after its destruction by Nebuchadnezzar in 586BC. The synagogue, according to another account, takes its name from a Jewish woman who reached Jerba, carrying a stone in her hand. She became known on the island as *al Ghriba*, the stranger, who, after living an exemplary life, died, leaving no trace.

The annual pilgrimage held in memory of Rabbi Meir Ba'al Hanes and Rabbi Shimon Bar Yochai takes place annually a few weeks after Passover. This year it attracted 2,000 Jews, the largest number in decades. Seven hundred of an estimated 2,000 Jews in Tunisia live on the island, happily co-existing with the local inhabitants who belong to the Ibadite rite of Islam which is the dominant rite in Oman and in the southern Algerian town of



Jewish symbol on ancient Tunisian silver jewellery

Ghardaia. Ibadites in north Africa are traditionally tolerant, learned and excellent traders. Indeed, hospitality as they practise it is described by the great Arab poet Omar Khayyam as deeply etched on to Jerba - "the clay whispered to the potter who pounded it; remember I was once as you are, do not handle me roughly."

History recalls the presence of Jews in Tunisia, notably in Carthage nearly 2,000 years ago. A large necropolis was discovered in the 1970s, probably the burial ground of those Jews descended from others who had taken refuge in north Africa after the second destruction of the temple by the Roman emperor Titus in 70AD.

Unlike the events in many Arab countries after the creation of Israel the Tunisian Jews, who at the time of independence numbered around 50,000 and had acquired French nationality, did not leave the country under duress. Moving to France was natural as that country offered greater opportunities.

One Tunisian Jew who did stay and is now a successful businessman is Mr Roger Bismuth, who still lives in the suburb of La Goulette, just outside Tunis, an area which in colonial days was synonymous with Jewish and Sicilian ways of life.

Following the French Great Rabbi's visit, the Tunisian authorities lifted the freeze on funds belonging to Tunisian Jews. That money can now be spent in Tunisia.

Official recognition of the diversity of Tunisian history is taking other forms. The role of the former rulers of Tunisia, the "beys", is now officially recognised. Since the last bey, Lamine, was deposed in 1957, the very memory of their existence had been erased. One of their palaces near Tunis, at Ksar Said, has recently been restored.

All these gestures come at a time when Tunisian leaders are liberalising the management of the country's economy. Foreign investment is being encouraged and some Tunisian entrepreneurs are

now investing abroad. No one expects former Tunisian Jews to come back and settle in Tunisia but they could prove useful relays in marketing Tunisian goods abroad or joining with Tunisians in joint ventures in the land where they lived for so many centuries. International marketing is one of the skills which still eludes many Tunisian businessmen.

Former Tunisian Jews are well established, notably in Paris. Most of them have fond memories of Tunisia - for centuries they shared many cultural values not least music and many business interests. As the Tunisian film, *The Man of Ashes*, so eloquently showed, the cultural symbiosis between the two communities ran deep. A number of Tunisian families played an important role in the struggle for independence.

During the Vichy and the Italian-German occupation, 1940 to 1943, many Tunisian Jews found refuge and help with their Moslem brethren. Mr Ben Ali shares such memories of close relations with Jews with many Tunisians. His childhood days were spent in Hamman Sousse during the Second World War.

Closer links with the Jewish community, if they develop, could have other beneficial consequences. They could encourage moves to liberalise the economy further. They could force greater transparency in economic operations. Such links could encourage foreign investment and trade, greater freedom of expression.

Mr Ben Ali's welcoming hand in no way belies his support for the Palestinian Liberation Organisation. The president has said he would be happy to host a meeting between the PLO leader Mr Yasir Arafat and the Israeli prime minister. The president's policy might simply help Tunisia recover its memory and thus bring it closer to Europe.

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TUNISIA 8

Francis Ghiles on the role of women in society

Escaping Islam's past

ONE OF the key reasons President Zine el Abidine Ben Ali is opposed to granting legal recognition to the al Nahda (Renaissance) opposition party - whose creed is Islam - is fear that such a move risks undoing what many Tunisians regard as their country's proudest achievement since independence: the corpus of laws which, in 1956, abolished polygamy and gave Tunisian women rights not enjoyed elsewhere in the Arab world.

The "Personal Status Code" is, arguably, former president Habib Bourguiba's greatest single achievement. It was promulgated the year Tunisia gained independence from France, a year before the new constitution that abolished the monarchy.

The rights of women were further consolidated last August by the national assembly. In the case of divorce, for instance, custody no longer goes automatically to the husband. Violence against women within the family is punishable. Women can request a passport without going through their father or husband and the state helps divorced women to secure alimony.

Since 1956 a policy of family planning has been in place. In the early 1960s free and confidential advice and prophylactics were made available to women. Combined with efforts to promote health and education, these policies reduced population growth from 3.2 to 1.9 per cent. The birth rate has declined from 45 to 25.4 per thousand, mortality from 15 to 6.1 per thousand. The illiteracy rate has been brought down from 87.7 per cent to 35 per cent, though the figure is higher among women in poorer country areas.

Women are increasingly visible in teaching, medicine, architecture - in factories as workers, engineers, managers and owners. But Tunisian politics remains very much a man's world, despite some remarkable exceptions, including Fethia Baccouche and Hanoum Houada, who are deputies, two secretaries of state and a handful of senior civil servants such as Fayza Kefi, whose presides over the Union Nationale

des Femmes de Tunisie. Most educated women have no lost love for the teachings of radical Islamic groups. Though al Nahda leaders have said they accept many of Mr Bourguiba's inheritance, women are mindful of the often violent track record of some supporters of the party, notably the throwing of acid in the faces of university students on the campus in Tunis.

History teaches women that radical Islam has not been sympathetic to the idea of equality between sexes or to their presence in public places. The history of modern Tunisia suggests that the emancipation of women has been a key factor in explaining the country's social and economic progress since 1956.

Economic progress has provided a means of emancipation which is far from negligible.

Women are increasingly visible in architecture, teaching and medicine

When a new law in 1973 allowed joint ventures to be established for the first time in Tunisia with offshore tax status, a string of factories set up across the country, giving many young women their first taste of freedom.

The simple act of walking to work a few hundred yards from home, away from the all powerful mother, broke many taboos. These women were not well paid but what little they earned allowed them to build up a dowry and gain a measure of freedom in choosing their husband. Once married, many were able to claim help from the state to buy a flat.

Women have 35 per cent of all jobs in Tunisia, 35 per cent of jobs in industry, 22 per cent of jobs in the growing services sector, 40 per cent of jobs in agriculture, where they manage nearly 10 per cent of all farms. They are present everywhere, seldom veiled, and give Tunis and other major towns a strong Mediterranean feel.

Last year's laws are ahead of the social mores of many Tunisians, yet they also reflect the fast changing attitudes affecting many sectors of society.

About ten per cent of new companies are created by women, according to Aziza Dargouth, who runs the Cabinet de Prospective Sociale consulting agency.

Hayet Laoumi had her first job as secretary in a shipping company, 26 years ago, after training to become a primary school teacher. She now owns and runs Stumar, a company with turnover of \$3m and is active in stevedoring, conveyancing and forwarding. She concedes it has not been easy for a woman to win acceptance in such a milieu, but as she moves around her office, cigarette in hand, firing orders, inquiring whether a particular container has arrived, the feeling Tunisia is undergoing a quiet revolution is overwhelming.

Sarah Sahdallah owns and runs a porcelain factory, Ibtissem Kamoun has become one of Tunisia's largest producers of ice-cream, Rashida Rouissi exports fruit and vegetables. Scores of others are involved in textiles, ice cream and software.

Such people would not quarrel with the policy of the Minister of Education, the highly respected Mohammed Charfi, who is having references in school text books that men are superior to women and adulterous women are stoned expurgated. The books of Hassan El Banna, the founder of modern fundamentalism, have been withdrawn from schools and public libraries. To western critics of such moves, many Tunisians point out that the past two decades, been subsidising the printing and distributing of books offering the most conservative interpretation of Islam. Why should they be criticised for trying to promote more liberal views?

Educated Tunisian women are well aware that some of their sisters support al Nahda. They agree with attempts to liberalise the economy and are convinced economic growth and a more broadly liberal society are the only serious ways to fight radical Islam. They are fearful of the possible spillover effects of events in neighbouring Algeria and Egypt.

TUNISIA'S tourist sector has grown quickly in recent years. Capacity has doubled to 140,000 beds since 1980 and new hotels under construction and building permits suggest that figure could rise to 200,000 by 1998. Investment in new hotels nearly doubled to 200m between 1990 and 1992, with more than 3m visitors travelling to the shores of North Africa's smallest country every year, earning it between Dinars 830m and 930m.

Tourist receipts cover between 50 and 100 per cent of the trade deficit, amounting to about one fifth of exports of goods and services. The sector accounts for 5 per cent of GDP and 5 per cent of all investment. The jobs it creates 40,000 directly and 150,000 indirectly - are welcome in a country with few natural resources.

This success story does, however, have its less attractive side. An ever growing number of Tunisians are wondering what will be left of their coastline as they watch the inexorable advance of concrete in places like the island of Jerba. They also wonder what will be left of Hammamet, already the busiest tourist area in the country, when another 13,000 beds are added by the massive Hammamet Sud development.

Tunisians with long experience in this sector worry about what they see as the "cheapening" of the Mediterranean's cheapest destination for package tour travellers. They say the strategy encouraging growing numbers of beds to be built in hotels with low occupancy rates except in summer is fundamentally flawed. Such a strategy gives international tour operators, who already dominate the Tunisian market, an ever stronger hand.

Critics say that some figures are misleading. The tourists who really matter are Europeans, but the figures here have not changed much since the late 1980s - 1.6m to 1.8m annually. The balance is made up of Libyans and Algerians whose presence is either fluctuating or at times unwelcome. Critics say the policy of subsidising interest rates on

There are fears that Tunisia could be about to lose its charm

Tourism's unattractive side

BUSINESS GUIDE

The country and climate

Tunisia lies on the north-east corner of the Maghrib, less than three hours from London. For more than 2,500 years, since Queen Dido arrived from Tyre to found Carthage, which today is the residential suburb of the capital, Tunis. The climate is hot in summer (often up to 40 degrees C in Tunis, with higher temperatures inland and in the south), temperate in spring and autumn. The north is often windy and wet in winter, the climate more Continental as the visitor travels inland towards the Algerian frontier. The deep south of the country is true desert climate, more pleasant to visit in the winter and spring than in summer.

The Tunisians remain very much as Thomas Shaw, the British traveller, wrote of them in the early 18th Century: "The most civilised people who inhabit the coast of the Mediterranean. They addict themselves to trade and commerce, which induces them to cultivate the friendship of Christians."

Getting there
Most leading Western airlines fly to Tunisia. GB Airways and Tunis Air have direct flights from Heathrow or Gatwick six days a week. Visas are not required for UK and most other western European and American visitors. The dinar currency cannot be bought outside Tunisia.

Business hours
Government offices work a six-day week closing on Friday and Saturday afternoons and Sunday. Banks and private companies work a five-day week. Tunisia is virtually closed down during August.

Car hire
Cars are easy to hire at principal airports and hotels but are expensive. Do not expect them to be in perfect condition. Tunisian roads are being improved but local driving is, at best, erratic.

Hotels
In general they are cheap and easy to find. The state has sold off virtually all its hotels. Tunisia essentially attracts package holidaymakers. Some hotels offer good service - the Abou Nawas, Africa and Hilton in Tunis, the Abou Nawas in Garmarth, and the Syphax in Sfax. The Jerba Menzel on the island of Jerba and the outstanding Tamerza Palace in the desert mountain oasis of Tamerza offer excellent service and food and, for the latter, an extraordinary setting.

Eating out
"Tunis is a land of liberty," wrote Chevalier d'Arvieux, the French diplomat, three centuries ago. "Religion disturbs no one; they pray God when they must, fast when they cannot, do otherwise, drink wine when they have money, get drunk when they drink too much and no-one finds

any harm in it."

Tunisians love good food and drink and the choice of restaurants is large. In Tunis, L'Astragale and La Closerie are top of the range; the Dar Jeld offers traditional Tunisian dishes such as "couscous" in a tastefully restored traditional house in the old medina. Chez Siah and Le Cafe Vert in the suburb of La Goulette serve excellent fish; the Cercle Italien and Paradiso good Italian and Tunisian food; Cesar, Chez Naus and Le Strasbourg reasonable French food. In nearby Sidi Bou Said, L'Atlantide is good. Further north, in Garmarth, Le Golfe is pleasant. On the corniche in the port of Bizerta, 60 kilometres north of Tunis, L'Eden offers good food in pleasant surroundings. In the deep south, the food at the Tamerza Palace is outstanding.

Arts and crafts

The variety of good traditional crafts in Tunisia is limited. The Office de l'Artisanat, Avenue Mohammed Cinq, offers the best choice to those who are not specialists and do not wish to bargain for hours.

Tunisian carpets (Mergoun or Karkoun weaves) remain attractive, well made and very reasonably priced. Old silver jewellery is difficult to locate but can be found in the old medina of Tunis.

For those interested in Muslim architecture, the Association de Sauvegarde de la Medina will be happy to show visitors around some of the old houses and shrines of the city. The Bardo museum has the finest collection of Roman mosaics to be found anywhere. One of the palaces of the former rulers, the boys, at Kasr Said, has just been renovated and opened as a museum.

There are many private art galleries in a country which boasts some fine modern painting. Among the best are Cheval Fine Arts and Armes Fine Arts in Sidi Bou Said, Gorgi Gallery in Mutuelleville, the Medina Gallery near the Dar Jeld restaurant in the old medina, Chiyem Gallery and the Arts Gallery, both in the new district known as El Menzah Soc.

Economics

For economic information about Tunisia, there is little outside specialised publications such as the Conjoncture Review, edited monthly by the ministry of economic affairs. Despite recent publications such as L'Economiste, information in the local media is usually mediocre and often inaccurate.

Books to read

All principal guide series have a volume devoted to Tunisia. For a lively account of the country's recent political history, Aziz Kitcher's Le Syndrome Bourguiba published by Ceres Productions in Tunis is useful.

Francis Ghiles

spectacular new course virtually all year round, sailors and divers are attracted by the summer months. There is boat hunting in autumn and winter. It is, it seems, for the state to spend TD250m in infrastructure, including the cost of a new airport? Would it not have been more judicious to build a fast road to Tunis, and cut the time of travelling to the capital from three-and-a-half to one-and-a-half hours? This would have encouraged a flow of visitors throughout the year, quite a part from the benefits it would have brought local farmers.

The consequences of careless development is increasingly visible. In the south, where small oases such as Douz are being ruined by hotels whose architecture destroys the very character of what is a uniquely fragile desert environment. In nearby Tozeur, new hotels ignore local architectural style. Yet, due north of Tozeur, in the mountainous oasis of Tamerza, an architect, Mr Foued Elieuch, and a hotel manager who knows the region well, Mr Mondji Hached, have produced the perfect Shangri-la. The architecture of the Tamerza Palace blends perfectly with the crumbling desert mountains against which it is set. It sits dramatically above the abandoned village and oases of Tamerza.

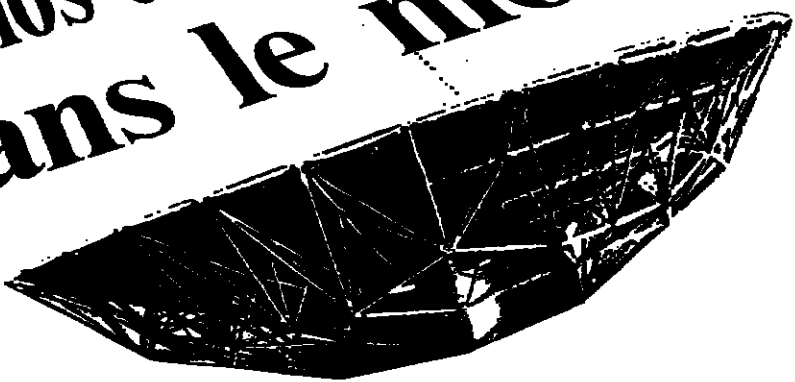
The interior is a masterpiece of simple design, well suited to the barrenness of the desert, which sprawls beyond its walls. The service is excellent and the food delicious. The hotel is attracting discerning travellers. Its success raises key questions about the direction Tunisian tourism will take.

Either the authorities want to encourage the building of smaller hotels tailored to a specific clientele, who have money to spend, or they will continue to encourage the ever-growing spread of uninspired architecture: hotels for mass tourism whose foreign earnings power is increasingly in doubt and whose presence is destroying many areas of the country.

In the book "Medinas" recently published by Dar Ashraf Azouz, the French architect, Claude Santelli, raises a cry of alarm about the number of old, colonial buildings being pulled down. Roman ruins are also being desecrated, such as the pier at Thapsus.

Francis Ghiles

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COMPANIES AND FINANCE

Hanson softens on voting rights

By Norma Cohen,
Investments Correspondent

HANSON, the Anglo-US conglomerate, said it may be prepared to give in to pressure from shareholders and retract proposals limiting their ability to influence annual meetings.

Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meeting to be held on June 25.

He said, however: "When we come to review our articles next year we will see if they need to be changed."

Mr John Rogers, secretary to

the investment committee of the National Association of Pension Funds, said the group had received similar assurances from Hanson.

The proposals have provoked a storm of protest from two investor groups, the NAPP and Pensions Investment Research Consultants, which advises shareholders on corporate governance issues.

Ms Anne Simpson, PIRC managing director, is urging investors to vote against the proposals. "Companies should be finding ways to improve their accountability to shareholders, not restricting their

existing rights. We consider it extremely important that Hanson does not set a precedent on this issue."

Some shareholders have complained that not only do the proposals severely curtail their legitimate voting rights, but that Hanson has proposed them in a fashion which makes voting against them difficult.

The offending proposals are contained in general amendments which seek shareholder approval of a scrip issue - supported by investors - as well as providing for some board changes deemed to improve the group's corporate

governance.

The new rules, which shareholders will vote on at an EGM, will eliminate the right of shareholders to nominate a director to the board unless backed by at least 10 per cent of the vote.

Also, shareholders will lose the right to propose amendments to resolutions at the meeting unless they represent 5 per cent of the share capital. In addition, the chairman will have an explicit power to refuse to call for a poll on any item by shareholders which in his opinion is "irrelevant" or "vexatious".

Government to restrict incentives on BT sale

By Peter John

THE GOVERNMENT will today announce the price for the first instalment of its 25bn BT stake sale and will take a harder line on incentives than in previous privatisations.

Discounts for private investors will be 10p a share for the second and third instalments rather than 15p previously and the bonus for existing shareholders will be 1-for-15 rather than 1-for-10 as before. The discount for the first instalment will be announced later and will depend on demand.

The cutbacks have been prompted partly by the government's need to raise as much cash as possible to counter its heavy public borrowing deficit.

Also, encouragement for institutions not to sell short and drive down the underlying share price ahead of the issue pricing means that the discount offered can be tighter.

Lower interest rates and lower returns from building societies increase the attraction of BT shares and reduce the need to boost the sale artificially.

Advisers to the issue, which is being handled by SG Warburg, have signalled that the price for the initial payment of the issue will be between 140p and 150p.

Although the issue is expected to be oversubscribed there are industry and market worries which could drag down share prices afterwards.

The long-awaited Monopolies and Mergers Commission report into British Gas will land on ministers' desks just after the issue and highlight regulatory uncertainty. Also, some analysts believe the impact of wider competition, particularly from cable operators, has been underestimated.

Meanwhile, the stock market is waiting to see the fate of the £1.3bn Zeneca rights issue which closes on June 21. If a significant amount of stock is left with the underwriters and the issue is considered a flop it could depress the stock market and affect the BT sale.

Policy Portfolio poised for main market with £11m tag

By Philip Coggan,
Personal Finance Editor

POLICY Portfolio, a market-maker in second hand endowment policies, is planning to join the main market next month.

The company is likely to raise up to £5m via a placing, sponsored by Charterhouse Tilney, and will have a market capitalisation of about £11m.

Endowment policies are frequently used in the UK as a means of repaying a mortgage. Returns on so-called "with profits" endowments can depend heavily on a terminal bonus, which is only paid to those who keep up policies for the full term, often 25 years.

Those who give up their policy before the full term normally receive a "surrender value" determined by the life company. The second hand



Isaac Rubin: group has 10 per cent of second hand market

market grew up as investors who were dissatisfied with surrender values sold their policies to third parties, who intended to keep up the payments and receive the full benefit of the terminal bonus.

Policy Portfolio, a member of FIMBRA, was founded in 1988 by Mr Isaac Rubin who had

himself invested in second hand policies in the early 1980s.

The group buys policies from investors and attempts to sell them at a profit. To date, the group has financed itself from bank borrowings and the issue will give it the capital base to expand.

Free-tax profits have grown from £245,000 in the year to March 31 1991 to an estimated £317,000, on turnover of £7.3m, in the year to March 31 1992.

The market for second hand policies was about £80m last year, giving Policy Portfolio a market share of 10 per cent, behind Foster & Cranfield and Beale Doble - part of the quoted Hambro Insurance Services. The second hand market is expanding rapidly in response to the large number of endowment policies sold in the 1980s.

Perpetual Japanese listing

Perpetual Japanese Investment Trust, the first investment trust launched by Perpetual, the Henley-based fund management group, is joining the stock market through an offer for subscription designed to raise £80m.

Up to 60m shares, with warrants attached, are being

offered at a price of 100p each. Investors will receive one warrant with every five shares issued, giving rights to subscribe for ordinary shares at 100p each in each of the years 1994 to 2000.

The trust will have an initial life of 10 years. Dealings are expected to begin on July 8.

BP France

BP France has recommended acceptance of the offer by BP Europe, itself part of British Petroleum, for the 14.01 per cent of the French company's shares it does not already own.

The offer price is FF192 per share, excluding the 1992 dividend. This gives shareholders a premium of 45 per cent on the last quoted price.

NEWS DIGEST

Business Technology £6m in red

RESTRUCTURED Business Technology Group, which sells and services office equipment, announced pre-tax losses of \$6.31m for 1992. Losses last time of \$7.44m have been restated in accordance with FRS 3.

Turnover amounted to \$20.2m (£42.4m) and the pre-tax result was after a loss of \$271,000 on disposal of fixed assets, a \$3.82m loss on the sale or termination of businesses, and \$792,000 of costs associated with the reorganisation of the group's activities.

Losses per share were 32.7p (34.4p).

Sharp decline to \$0.22m for A Cohen

A reduction in pre-tax profits from \$783,000 to \$215,000 was announced by A Cohen for 1992.

Turnover for the company, which makes non-ferrous metal ingots and is involved in the reclamation and trading of recyclable material, declined to \$78.4m (\$83.7m).

The company blamed recession in all its markets for the result and the large imbalance between demand for and supply of aluminium.

The deficit after tax was \$512,000 (\$343,000), equivalent to losses per share of 31.6p.

(21.2p). The proposed final dividend is maintained, however, at 3.4p, giving a reduced total of 6.8p (10p).

Somic returns to the black with £81,000

Cost reductions enabled Somic, a maker of yarns and woven fabrics, to return to profits in the year to March 31 with £81,000, compared with losses of £114,000.

Mr Richard Blackburn, chairman and managing director, said that turnover remained depressed but planned reductions in costs had helped ensure a return to profits in the second half.

The result was also helped by higher investment and interest income of £106,000 (£73,000).

Turnover was £3.59m (£3.5m). Earnings per share were 3.86p (2.83p losses) and the proposed single final dividend is 1.5p (1p).

AF Bulgin losses increase to £212,000

Higher exceptional costs contributed to pre-tax losses increasing from £107,000 to £212,000 at AF Bulgin, the electrical components maker, in the year to January 31.

Directors said that the year had been extremely difficult, but trading had improved in the first three months of the present year at all three sites.

Two purchases had been made since the period end, with one already having an

effect and the benefits of the other expected later in the year.

Turnover was £12.6m (£12.2m) and losses were after exceptional costs of £141,000 (£71,000).

Losses per share came out at 0.76p (0.4p) while an unchanged single final of 0.1p is proposed.

Write-offs behind Beauford's downturn

Pre-tax losses at Beauford, the manufacturer of materials handling equipment and machine tools, leapt from £3.59m to £26.4m in the 1992 year.

Of the loss, almost £21m related to goodwill written off under new accounting standards and had no effect on cash or net assets, the company said.

Turnover was down 44m to £34.1m. At the operating level losses amounted to £2.46m (£18,000).

Net interest payable fell from £2.21m to £1.72m as borrowings were cut from £17.5m to £11.7m. Losses per share were 25.4p (33p).

Vtech shows sharp decline to \$8.5m

Vtech Holdings, the Hong Kong-based electronics, computer and telecommunications group, announced reduced pre-tax profits of \$8.5m (\$5.5m) for the year to March 31. Profits last time amounted to \$24.6m.

Turnover edged ahead to

\$565m (\$561m) but the pre-tax result was affected by lower profits of \$2.2m (\$16.8m) on the sale of investments.

Earnings per share fell to 2 cents (15.9 cents) and the final dividend is omitted, making 1 cent (7 cents) for the year.

RCO expands 6% to £2.41m

RCO Holdings, a supplier of integrated site support services, announced a 6 per cent rise in pre-tax profits from £2.27m to £2.41m for the 27 weeks to April 4.

The interim dividend is increased to 4.95p (4.62p) on earnings per share of 14.71p (13.97p).

Hambros Inv Trust net asset value up

Hambros Investment Trust had a net asset value of 47.11p per share at March 31 against 46.44p six months earlier and 46.78p at the previous year end.

Net revenue for the 12 months fell to £31.843 (£49,065). Losses per share were 0.02p (0.01p earnings).

Oriflame raises £4.4m in placing

Oriflame International, the cosmetics manufacturer, is raising £4.4m through the placing of 17.6m shares, representing 3.3 per cent of the issued share capital, at 25p.

The shares are at present held as treasury shares.

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NOTICE OF EARLY REDEMPTION
THE REPUBLIC OF ICELAND
U.S.\$125,000,000 Floating Rate Notes Due 2000
("The Notes")

Notice is hereby given that in accordance with Condition 5(b) of the Notes The Republic of Iceland (the "Issuer") will redeem all Notes relating to the above issue at their principal amount on the next interest payment date, 19th July 1993 (the "Redemption Date") when interest on the Notes will cease to accrue.

Payment of principal will be made on presentation of the Notes at the specified offices of the Paying Agents.

Coupons due 19th July 1993 should be presented for payment in the usual manner.

Upon the redemption date, unexpired Coupons relating to such Notes (whether or not attached) shall become void and no payment shall be made in respect thereof.

Notes and Coupons will become void unless presented for payment within a period of 10 years in the case of Notes and 5 years in the case of Coupons respectively from the relevant date (as defined in Condition 10) relating thereto.

June 14, 1993, London
By: Citibank, N.A. Fiscal and Principal Paying Agent

CITIBANK



Notice to the Holders of

EUROPEAN INVESTMENT BANK

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EUROPEAN INVESTMENT BANK

COMPANIES AND FINANCE

Ibos payment network set to link with US banks

By John Gapper, Banking Correspondent

UP TO five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into competition with the Swift system that dominates European Community cross-border payments.

Ibos, started by Royal Bank of Scotland and Banco Santander, will also launch in autumn services aimed at small and medium-sized businesses, allowing companies remote computer access to their overseas accounts.

The Ibos network links 2,500 branches in Europe owned by the two founding partners, Crédit Commercial de France, and Banco de Comercio e Industria in Portugal. However, the group is negotiating with several US banks to link

it to branch networks there.

Such a link would boost traffic through the network considerably. There are expected to be 22,000 transactions totalling \$150m this year through Ibos. The Ibos system allows transfers among accounts within seven seconds, but the network is capable of handling up to 40,000 a day.

The Ibos partners are considering how to extend the network to the US, and are likely to admit several banks to cover the country. One possibility is that one bank will be licensed to offer Ibos services in each state, with each participating bank holding several licences.

The Ibos network is losing-making, in contrast to the Swift network to which all European banks have access and which had revenue of \$350m in 1991. However, its partners expect it to enter profitability in about 18 months, and then achieve rapid growth.

The partners in Ibos - which stands for Inter Bank Online System - are also negotiating with banks in Belgium, Austria, Holland and Germany to establish partners in those countries. They expect to build a larger share of the \$12bn market when this is done.

Mr Norman McCusker, managing director of Royal Bank of Scotland's operations division, said the Ibos partners had so far concentrated on ensuring the system worked reliably. Now, however, they expected strong growth. "We see ourselves in a very dramatic position," he said.

Ibos is being marketed as being cheaper and faster than Express Swift transfers via a central computer in Brussels. Customers who hold accounts at the banks in the network are estimated to be able to transfer \$2,000 (\$4,600) for a fee of \$6 through Ibos compared to \$15 for Express Swift.

Microsoft in talks on cable TV venture

By Patrick Harverson in New York

MICROSOFT, the US computer software group, is in talks with Time Warner, the entertainment group, and Tele-Communications Inc, the big cable television company, to set up a joint venture to develop interactive software for television, according to news reports.

Although the three companies have not commented on the reports, their negotiations are expected to lead to the establishment of a new company producing software for cable television boxes.

The software would provide cable subscribers with access to a wide array of interactive information and services. It would allow them to shop by television, view individually-selected news and statistics, or select films and video games from a vast electronic library.

The link-up between Microsoft, Time Warner and TCI would represent the latest in a series of moves by large computer, entertainment and communications companies joining forces to develop interactive media technology for cable television users.

In April, Microsoft announced it was getting together with the micro-chip manufacturer Intel and cable hardware company General Instrument to develop a cable TV box with a built-in interactive personal computer.

Enron thrives in an open market

David Lascelles charts the rise of 'the US's biggest natural gas group'

REGULATION of the tightly controlled natural gas business in the US has opened up opportunities for energy companies, none more so than for Enron, based in the US oil and gas capital, Houston.

Non-existent 10 years ago, Enron has mushroomed to the point where it claims - with some justification - to be "the nation's largest natural gas company". Its status is embodied in the shiny skyscraper it occupies in the city centre next to other giants of the energy business.

Enron was born in 1985 from the merger of a natural gas and a pipeline company. It owes its rapid growth largely to decisions taken by the Federal Energy Regulatory Commission (FERC) to lift decades-old controls which restricted the operations of gas companies and put a lid on prices. In particular, the "unbundling" of gas transportation and sales services gave greater freedom to companies to compete.

But two other factors also played a role. One was the changing perception of gas from a by-product best flared off at the wellhead to an efficient, environmentally friendly fuel ideal for power generation. Another was the view of Mr Kenneth Lay, Enron's chairman, of the gas market as one of boundless opportunity.

Today, Enron is in all important stages of the gas business. It has an exploration and production arm through its 80 per cent interest in Enron Oil and Gas; it owns a 40,000-mile net-

work of gas pipelines extending up towards the Great Lakes and outwards to Florida and California; it provides gas supply and distribution services, and downstream it builds and operates power stations.

The area of the market where Enron has been especially successful is in exploiting the new freedom to market gas. Its gas services division has built up a speciality in designing tailor-made long-term supply contracts for customers using sophisticated hedging and financing techniques. It also trades heavily in the gas market: 10 per cent of all the gas bought and sold in the US passes through Enron's hands. This gives it a liquidity few competitors can match.

Although the biggest part of Enron's growth has come in the US, it has also exported its vision of a gas conglomerate. In April, the company opened a 1,875MW power station on the UK's Teesside. Enron owns 50 per cent of the \$1.2bn facility, which it expects to be the precursor to others in the UK. It is also negotiating projects in India, Germany, Turkey and Kuwait, and it has bought a stake in a pipeline network in Argentina.

The strong expansion in electricity demand predicted for the Third World over the next decade is all factored into Enron's growth plans. The wave carrying Enron forward has been reflected in its results. Earnings have risen at a compound annual rate of nearly 30 per cent since 1988,

reaching \$306m last year. And Mr Lay is confidently predicting growth of another 20 per cent this year. "All our businesses are doing a bit better," he says.

Mr Lay bases this optimism on the strength of the US gas market. After years of glut, he reckons that supply and demand will finally come into balance, and this is reflected in the rise in gas prices to as much as 60 per cent over last year's levels. According to US government statistics, US demand rose 4.3 per cent in the first quarter of this year, but production went up less than 1 per cent.

However, further out, Enron expects US natural gas growth to be strong well into the next century. Its latest forecast puts demand at 22,000bn cu ft in the year 2000 (it was 18,000bn last year), rising to more than 25,000bn in 2010. Enron's estimates of US gas reserves are also rosy: they suggest there is enough to last 71 years.

Much of the rest of the US energy business seems to share Mr Lay's enthusiasm for gas. Other large companies such as Mobil, Shell and Exxon see a good part of their future growth coming there as well.

Not everyone, however, is as optimistic about the level of reserves. Mr Robert Hermes, president of Purvin & Certz, a Houston firm which specialises in oil and gas research, says: "The attitude is that we've got all we want. People are over-optimistic. We have been living

off a surplus, but that day is over."

He points out that the strength of the gas price has not sparked a surge in exploration activity because people are worried about the volatility of the market.

Another potential cloud on Enron's horizon is the energy tax being proposed by President Bill Clinton. Although it is still not clear what form it will take, Mr Lay says he is confident it will be a tax on energy consumers rather than energy companies. That, he says, is "a tax we can live with".

But can Enron keep up the pace now that the initial flush of deregulation is over and strong competitors are moving into the market? Mr David Fleischer, gas industry analyst at Goldman Sachs, believes it can. He is predicting long-term earnings growth for Enron of 15 per cent. "It's an even better managed company than most people think it is," he says. "Mr Lay has turned it round during a period which buried many other companies."

Mr Lay's response to concerns about Enron running out of steam is that it is wrong to view the last five years as ones of exceptional growth for the natural gas business. For much of that period there was still regulation and uncertainty, and Enron's success came in spite of rather than thanks to events. "The market growth will be bigger in the next five years than in the last," he forecasts.

Decline in demand hits Kone result

By Hugh Carnegie in Stockholm

KONE, the Finnish maker of elevators and cranes, said profits before taxes and allocations declined in the first four months, to FM69m (\$12.7m), from FM78m at the same stage last year. It blamed the decline on falling demand in Europe.

Kone said although it saw no signs of revival in demand in the rest of 1988, it expected an improvement later in the year to produce a full-year profit at "nearly the same level" as 1987's FM479m.

Sales at Kone Elevators, which represent 73 per cent of group turnover, grew 16 per cent in the first four months, lifting overall sales to FM3.6bn, a 15 per cent improvement over last time. However, some two thirds of the growth in sales were attributed to the near 20 per cent decline in the value of the Finnish markka following its flotation.

Vard to reveal sale of ferry business

By Karen Fosli in Oslo

VARD, the Norwegian cruise and ferry group, expects to announce the disposal of its ferry business this week, according to a senior executive in the company.

Trading in Vard's shares were suspended temporarily on Friday in Oslo and London. On Thursday Vard's shares closed on the Oslo bourse up NKr2 at NKr25, and were the second most actively traded with 8 per cent of the share capital worth NKr23.8m (\$3.44m) changing hands.

Mr Trygve Hegnar, a Vard board member, on March 15 made an "indicative" offer of NKr1.2bn for the ferry business, which includes the Scandi and Larvik lines.

Union Bank of Switzerland is leading negotiations on behalf of Mr Hegnar and a group of financial investors, while Mr Truls Sanner, Vard's chief executive, is negotiating on behalf of the board. Mr Hegnar

is also Vard's second biggest shareholder with an 11.8 per cent stake in the group.

In Vard's 1992 accounts, the three ferries which make up the fleet were booked at a value of NKr455m.

Vard forecast a "satisfactory" result in 1993 for the ferry business. Last year, the business achieved its best result ever, posting a net profit of NKr123.7m against NKr104.5m in the previous year. In the first quarter of this year, however, it saw losses widen to NKr32.6m from NKr18m in last time.

Domestic analysts estimate proceeds of the disposal will reach \$170m. About \$120m will be used to pay off the bulk of the \$220m worth of debt of Vard's holding company. The rest will be used to service remaining debt and cover overheads.

Vard is also seeking to dispose of just over 50 per cent of Miami-based Kloster Cruise, its cruise business.

Trust banks

IN reference to a report in the Financial Times on June 1, Japan's seven trust banks say they did not change their accounting procedures, and counted as revenue only cash received on their trust accounts, and did not utilise accrued basis accounting methods.

The banks attribute their improved operating profits for the year ending in March to favourable margins on interest rates, which fell during the period, and to cost cutting.

Tetra Laval sells unit

TETRA LAVAL, the Swedish food packaging and equipment group, has made its first big disposal since the takeover of Alfa-Laval in 1991. It has sold German-based Bran & Luebbe in a DM210m (\$130m) leveraged buy-out, writes Andrew Baxter.

CWB Capital Partners, a London-based acquisition fund, is buying B&L, one of the world's leading suppliers of dosing pumps, industrial ana-

NEWS IN BRIEF

lyzers, and electronics for industrial weighing and process automation.

The deal is believed to be the largest leveraged buy-out in Germany in three years.

Bank financing is being provided by Dresdner Bank, Deutsche Bank and Citibank. Rhein Donau Capital Partners, a fund managed by Goldman Sachs, has taken a substantial minority stake in the transaction, and Hancock International Private Equity Partners has also made a minority investment.

■ R. H. Macy, the bankrupt New York-based department store group, made a \$54m operating loss in its third quarter, to May 1, down from a \$60m deficit in the same period last year, writes Nikki Tait in New York.

The after-tax loss stood at \$28m, but this includes "reorganisation" items of \$182m, related to store closures and other changes. The net loss in the same period of 1991 was \$226m after reorganisation items of \$166m.

■ Standard & Poor's and Moody's, the two largest US debt rating agencies, said they were reviewing the ratings of H. J. Heinz for a possible downgrade, writes Nikki Tait.

The announcements came after directors of Heinz, the Pittsburgh-based food group, authorised the "buy-back" of up to an additional 10m ordinary shares.

Heinz has an existing share repurchase programme, which began in December 1991 and was also for 10m shares. However, it now has only 300,000 shares left to repurchase under this earlier authorisation.

TOTAL

NOTICE TO SHAREHOLDERS
DIVIDEND PAID IN SHARES

At TOTAL general shareholders' meeting on June 2, 1993, shareholders approved a resolution whereby they may elect to receive their dividend either in shares or in cash. The 1992 dividend amounts to seven French francs a share, excluding the associated tax credit.

DIVIDEND PAID IN SHARES

The shares which would be issued to shareholders electing to receive the dividend in shares have been priced at 225 French francs each, corresponding to ninety percent of the average share price during the twenty trading days preceding the June 2, 1993 annual meeting, less the amount of the dividend net of tax credit and rounded up to the next franc. On June 2, 1993 TOTAL shares cum dividend opened on the Paris Bourse at 364.50 francs.

FRACTIONS. When the total dividend does not give the right to receive a whole number of shares, the shareholder may elect to receive the next lowest whole number and receive a cash payment corresponding to the remaining fraction, or may choose to receive the next highest whole number of shares and pay the cash amount corresponding to the remaining fraction. The cash payment is to be made when the election to receive shares is requested.

ELIGIBILITY PERIOD. Shareholders may elect to receive their dividend in shares from June 14, 1993 to July 9, 1993 inclusive by making the request through their financial intermediary. After July 9, 1993 if no election is made the dividend will be paid only in cash as from July 30, 1993.

DIVIDEND RIGHTS. The new shares will carry dividend rights from January 1, 1993.

CASH PAYMENT

PAYMENT PERIOD. Shareholders may request immediate payment of the dividend in cash from June 14, 1993 to July 9, 1993. If no request is made during this period, the dividend will be paid as from July 30, 1993.

For further information, please contact
TOTAL "Services aux Actionnaires"
33 (1) 42 91 32 51



Tout TOTAL - 34 Cours Michélet - cedex 47, 92069 Paris la Défense, France

NOTICE OF REDEMPTION

Mofinos Rio De La Plata S.A.
U.S. \$21,000,000
11% Class B Negotiable Obligations

Due 1992-1995

Mofinos Rio de la Plata S.A. ("Mofinos") hereby gives notice that it has irrevocably elected, according to Section 203 of the Federal Agency Agreement dated as of December 13, 1990 Among The Bank of New York (the "Bank of New York"), Banque Internationale a Luxembourg S.A., Banque Bruxelles Lambert, and Mofinos (the "Agency Agreement") and in the Condition 7 of the terms and conditions of U.S. \$21,000,000 11% Class B Negotiable Obligations Due 1992-1995 (the "Securities"), to redeem, on July 7, 1993 (the "Redemption Date") 100 percent of the unpaid principal amount of the Securities then outstanding plus accrued and unpaid interest to such date.

The redemption price will be 100 percent of the unpaid principal amount of the Securities outstanding at the Redemption Date (U.S. \$13,125,000) plus the accrued and unpaid interest to the Redemption Date (U.S. \$144,975 in the aggregate, or U.S. \$11.19 per U.S. \$1,000 principal amount) (the "Redemption Price"). On the Redemption Date, the Redemption Price becomes due and payable upon each such Security, and the interest thereon shall cease to accrue on and after the Redemption Date.

The Securities with all coupons for interest maturing on or after the Redemption Date are to be surrendered for payment of the Redemption Price to:

The Bank of New York
46 Berkeley Street
London W1K 6AA, England

Banque Internationale a Luxembourg S.A.
2 Boulevard Royal
P.O. Box 2205, L-1002 Luxembourg

and
Banque Bruxelles Lambert
Avenue de la Woluwe 62
B-1200 Brussels, Belgium.

If any Security surrendered for redemption shall not be accompanied by all coupons for interest maturing after the Redemption Date, the surrender of such Security shall be deemed to be a surrender of such Security and the coupons may be waived by Mofinos and the Agent jointly if it is determined that such security or instrument is not subject to their sole reasonable discretion to hold harmless each of them and any paying agent. In the event that surrender of the Security coupon or coupons for interest is not received, the holder of the related Security shall nevertheless be entitled to receive the Redemption Price minus the amount represented by the missing coupon or coupons for interest.

Mofinos Rio De La Plata S.A.
Nelly Salles, President

Dated June 7, 1993

SOLVAY S.A.

The general meeting of 7th June 1993 approved the distribution for the financial year 1992 of a net dividend of 84000 on share capital. The last dividend of 84000 will be payable by BF draft, by transfer to a BF account, or, in sterling at bankers' sight buying rate for Belgian francs on the day of presentation at the option of the holder against presentation of Coupon No. 51 at either of the following offices:

Schroder Investment Management
Limited,
25 Old Broad Street,
London EC2N 1DL.

General Bank
4 Bithwegasse,
London EC2.

Between the hours of 10am and 2pm on or after 22nd June 1993 UK tax will be deducted from the net dividend unless lodgements are accompanied by the necessary affidavit. Payment can be made only to persons residing outside the Belgium-Luxembourg Customs Union. Shareholders should note that under the terms of the UK/Belgium Double Taxation Convention Solvay shareholders resident in the UK are eligible, upon submitting a duly completed form 276 DNV, to partial reimbursement of Belgian withholding tax equal to 20 percent of the net dividend.

Finance for Danish
Industry International
S.A.

Yen 5,000,000,000
Guaranteed notes due
1994

Notice is hereby given that for the interest period 14 June 1993 to 13 December 1993 the notes will carry an interest rate of 4.53% per annum. Interest payable on 13 December 1993 will amount to Yen 2,258,795 per Yen 100,000,000 note.

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Standard Chartered

Standard Chartered PLC
(Incorporated in England & Wales)

US\$400,000,000 Undated Primary Capital
Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Determination period from 14th June 1993 to 12th July 1993 the Notes will carry interest at the rate of 3.6875 per cent. per annum.

Interest accrued to 12th July 1993 and payable on 12th July 1993 will amount to US\$28.68 per US\$10,000 Note and US\$286.81 per US\$100,000 Note.

West Merchant Bank Limited
Agent Bank

UK GILTS

SPANISH BONDS

SPANISH BONDS

Socialist victory keeps dealers bullish for now

Peter Marsh

The market felt there was now room for Spanish rates to ease in the wake of German cuts. Bank of Spain governor Mr Luis Angel Rojo fuelled the feel-good factor by saying the

The May inflation figure published today is expected to show a year-on-year figure unchanged at 4.6 per cent and underlying inflation unchanged at 5.8. In June, when the latest devaluation works through to prices, inflation could start to climb and

Tom Burns

Wall Street relaxes inflation watch

Patrick Harverson

[illegible]

Good start for Fortis in 1993

Key figures Fortis first quarter 1993

(in Rs.) million	1993	1992	% increase
Total revenues	2,543	2,220	+ 16
Operating result	90.4	80.8	+ 12
Profit	85.1	74.5	+ 14
	31-03-1993	31-12-1992	
Net equity	3,516	3,340	

∴ ECU = 0.80 Sterling

Key figures parent companies first quarter 1993

	AG Group (in BEF*)		N.V. AMEV (in NLG*)	
	1993	1992	1993	1992
Earnings per ordinary share	45.8	40.9	1.55	1.42**
	31-03-1993	31-12-1992	31-03-1993	31-12-1992
Equity per ordinary share	1,976	1,858	71.92	67.64

* 100 BEF = 2.00 Sterling
1 NLG = 0.37 Sterling
** Adjusted

Prospects

In view of the results achieved in the first quarter of 1993, Fortis stands by its forecast for the whole of 1993. The operating result and net profit are expected to at least equal the 1992 figures.

Fortis: a united force in financial services

Fortis is an international insurance and banking group. Fortis' activities are widely spread, both geographically and in terms of products. Since its creation in December 1990, the group has implemented its strategy resolutely, actively exploiting new opportunities. AG Group from Belgium and N.V. AMEV from the Netherlands are the two parent companies of Fortis.

...
if you would like to receive a copy of the first quarter report 1993
of Fortis and its two parent companies, please contact Fortis
Communication:

fortis

AG Group and N.V. AMEV
are the two parent companies of Fortis

Boulevard Emile Jacqmain 53
1000 Brussels
Belgium
Tel.: 32.(0)2.2208135
Fax: 32.(0)2.2208092

Archimedeslaan 10
3584 BA Utrecht
The Netherlands
Tel.: 31.(0)30.573838
Fax: 31.(0)30.522394

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is denominated in millions of currency units.	repd same	05/04/87	7 1/2	7 1/2	\$4.25
FLLOATING RATE BONDERS: dollars unless indicated. Margins above six-month offered rate for US dollars. Cpn=current coupon.					
CONVERTIBLE BONDS: Dollars unless indicated. Premium=percentage premium of the current effective price of buying shares via the bond over the most recent share price.					
WARRANTS: Premium from exercise premium over current share price. Bond warrant ex 100-shares yield at current warrant price.					
					Closing prices on June 11

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Activity in fledgling Asian Dragons begins to take off

ASIA'S Dragon bond market is still in its infancy, with the handful of issues launched so far adding up to just over \$20m.

But with the recent flurry of activity five borrowers have launched issues in Asia in the last three months and more are rumoured to be lining up deals - some bankers are wondering whether the fledgling market has finally taken off.

A Dragon bond is similar in structure to a Eurobond, except it is listed in Asia (usually in Hong Kong or Singapore) and is targeted at investors in the region. It is usually heavily marketed in Asia and traded in the Asian time zone so that investors there get first bite at the cherry before London wakes up for trading.

Mr Andrew Pisker, managing director of corporate finance at Lehman Brothers International, notes that one of the main aims of the borrower is to attract a wider range of investors in Asia.

"There is a large market out there there are investors in the

region who have bought Eurobonds, and if you are an issuer you should have a large investor base," he says.

The seven Dragon bonds issued to date range from the Asian Development Bank's dollar and yen deals (which provided the foundation for the market) to financial agencies (such as Nordic Investment Bank, European Investment Bank and Swedish Export Credit), as well as General Electric Capital Corporation (GECC), the sole corporate name to have tapped this market.

Lehman Brothers says the issues have attracted a wide range of investors in the region, including central banks, regional and local commercial banks, non-bank financial institutions, fund managers and mutual funds.

Mr Peter Yngwe, treasurer and head of finance department at Swedish Export Credit (known in the market as SEK) says one reason for launching a \$200m Dragon bond issue earlier this month was "to tap into a market where we find old and new investors, so we are broadening our investor base. It should be

easier to be remembered if we are there early."

But just as important, he claims, is the implied commitment to the Asian region. "It suits us because we are lending to Swedish exporters and we have a lot of corporations in Sweden which do business in Asia, for example in infrastructure projects."

According to Lehman Brothers, lead manager for GECC's \$300m five-year Dragon bond in March, GECC was keen to raise funds from Asian investors to demonstrate its "commitment to the [Asian] region", especially since it is involved in joint ventures in the area.

The Asian Development Bank is keen to develop the capital markets in the region, and some capital market participants hope to see more and more big names turning to the Dragon bond market.

Mr Yngwe of SEK sees a gradual development of the Asian market, with the current triple-A rated names blazing the trail.

He predicts local banks will turn

to the Dragon bond market because of the strong need for financing in the region related to infrastructure and construction projects.

One senior investment banker in Hong Kong thinks the Dragon bond market will remain an arena for triple-A and double-A credits in the immediate future, but he predicts that "in five years' time we'll probably have seen a move down the credit rating spectrum".

Not all international bond market participants are so enthusiastic about the future of the Dragon bond market. Some question the point of launching issues aimed only at Asia. These detractors would prefer to see "big name" borrowers launching global bond issues, or else considering bond issues launched in both Asia and Europe.

"There's no practical reason why we shouldn't have a sort of hybrid bond issue launched in Asia and Europe," says one syndicate head at a Japanese house.

But the more serious criticisms levelled at the recent Dragon bond issues concern their relatively poor

liquidity and the fact that in some cases, yield spreads have widened out in the period since launch.

The deals issued by the Nordic Investment Bank, European Investment Bank and SEK were all seen as aggressively priced at the time of launch. Dealers pointed out that Euro-bond spreads over US treasury bonds have tightened very slightly in recent weeks, whereas the yield spreads on NIB, EIB and SEK Dragon bonds have inched very slightly wider.

Naturally, borrowers are keen to raise funds at the most aggressive pricing possible, and can usually borrow at a similar cost using a Dragon bond or a Eurobond.

But as one Hong Kong-based banker put it: "Perhaps the lesson to be learned is not to price the next few deals too tightly or investors may be deterred from buying the bonds if they see that there is a risk of spreads widening out again. Otherwise there's a danger the market will crash and burn."

Sara Webb

RISK AND REWARD

Futures fund managers reassess the cash implications



WHEN investors consider which futures funds to buy, they are faced with an almost infinite array of trading systems and analytical techniques for investing in the futures markets.

But the structure of futures funds means that often only a relatively small portion of the fund is actually invested in margins on futures contracts or option premiums; the remainder is invested in the money markets.

The performance of this part of the fund has often tended to be ignored. However, increasing competition in the futures fund business has encouraged greater care to be taken in the management of the cash portion of the fund. In particular, the decline of short-term interest rates has forced fund managers to reassess their approach.

Some smaller futures fund managers, particularly in the US, are starting to farm out the management of the cash portion of their funds.

"People concentrate on the things that they are interested in," says Ms Diane Mix, of Horizon Cash Management, which is now trying to market its services to European futures funds. "Futures fund managers are very keen on the futures side and tend not to concentrate on the rest of the money, which consequently doesn't earn as much as it should."

In the US, many fund managers have simply invested the cash portion of funds in Treasury bills or in an interest-bearing account, according to Ms Mix.

In fact, once a large pool of cash is available, better returns can be earned from commercial paper and bank certificates of deposit.

According to one large futures fund management group, which manages its own funds' cash, it is difficult for funds with less than \$5m in cash to get attractive rates. In the CP and CD markets bid/offer spreads are uncompetitive in small sizes. Term deposits can also be unattractive, because of the penalties imposed for early redemption, which means that potentially better margins can easily be lost.

Ms Mix says her company is

looking to offer returns equal to or better than prevailing T-bill rates. Historically, she says, futures fund managers have achieved less than bill rates, partly because of the relatively high fees subtracted from returns.

★★★★

WHILE derivatives may still be giving regulators some sleepless nights, credit rating agencies seem to be rather less perturbed.

Moody's, one of the leading US credit rating agencies, has completed a report on the credit risk implications of derivatives activities which concludes that few of the financial institutions it rates have been materially affected by their derivatives activities.

"There will be losses at individual entities from bad risk analysis, bad controls, or plain bad luck, but derivatives are not a ticking time-bomb for banks and securities houses," according to Mr Douglas Lucas, assistant vice-president of Moody's financial institutions group.

Moody's found that the risk-adjusted returns to derivative dealers have generally been high, and that losses, so far, have not resulted in significant credit implications. Mr Lucas believes it is the "large numbers, cryptic nature and opaque disclosure" of the derivative markets which have fuelled fears about the risks involved.

He noted that Moody's has never changed an institution's rating solely on the basis of derivative operations.

"Typically, the factors arguing in favour of an adjustment in our ratings cut across an institution's balance sheet and off-balance sheet activities," he said.

Moody's divides its overview of derivatives risk at a financial institution into four main areas - the purposes of the activity, market risk, credit risk and operating risk. Mr Lucas takes a strong view that derivatives are usually used by financial institutions to assume risks similar to those already taken in other ways. But it is an issue the agency explores with both financial institutions and industrial companies: "It does have the potential to be a negative in the credit picture," he said.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Daiwa Koshu Lease Co.(Jp)	200	Jun.1997	1.125	100	-	-	Daiwa Europe
Nippon Oil & Fats Corp.(Jp)	100	Jun.1997	1	100	-	-	Yamaichi Int.(Europe)
Republic of Italy(Re)	25m	Jun.1996	6	99.75R	-	-	Morgan Stanley Int.
KW International Finance	100	Jun.2000	5.875	99.208R	6.017	+23 (5 1/4%-03)	Deutsche Bank London
City of Kobe	240	Jul.2003	6.375	99.82R	6.426	+27 (4 1/4%-03)	Bank of Tokyo Cap.Mkts.
Bank of China	200	Jul.1998	6	100R	-	-	CSFB
Daiwa Rakuoka Industry(Jp)	85	Jun.1997	1	100	-	-	Daiwa Europe
SNICS	80	Jun.1996	9.375R	99.55R	9.480	-	ING Bank
MMC Int. Finance (Neths)	150	Jun.1996	5	100.25R	5.941	+58 (5 1/4%-98)	Mitsubishi Finance Intl.
Prime Property Funding(Jp)	172	Jun.1996	6	100	-	-	CSFB
BankAmerica Corp.	150	Jun.2003	6	100R	-	-	Kidder, Peabody Intl.
COFIB	150	May.2003	6	100	-	-	Kidder, Peabody Intl.
El Lij & Co.	150	Jul.1996	5.5	99.744R	5.580	+15 (5 1/4%-98)	Morgan Stanley Int.
Republic of India	125	Jul.1996	6	99.23R	6.184	+75 (5 1/4%-98)	Goldman Sachs Intl.
SASCO 3(Jp)	121.166	Jun.2005	6	100	-	-	Lehman Brothers
Banco Comercial	40	Jul.1998	8	96.75R	8.311	+300 (5 1/4%-98)	CSFB
Homestead Mining Co.(Jp)	150	Jun.2000	5.5R	100	-	-	Goldman Sachs Intl.
YEN							
Shogoro Breweries(Jp)	400m	Jun.2000	1.375R	100	-	-	Yamaichi Int.(Europe)
Tos Steel Co.(Jp)	300m	Jun.2000	1.5R	100	-	-	Nomura International
Sony Electronics	100m	Oct.1996	4.45	100.15R	4.395	-	Salara Finance Intl.
FRANCH FRANCES							
SNCF(Jp)	30m	Mar.2002	7.75	102.37R	7.359	+23 (5 1/4%-02)	Banque Paribas
Caisse Nationale des Autoroutes	1.70m	Jul.1999	6.75	99.617R	6.830	+20 (5 1/4%-98)	CCF
Eurofil	10m	Jul.2000	7	99.775R	7.229	+18 (5 1/4%-00)	Société Générale
Credit Lyonnais	10m	Feb.1998	7	99.811R	7.085	+61 (5 1/4%-98)	Credit Lyonnais
France Telecom	25m	Jul.1996	6.5	99.58R	6.800	+20 (5 1/4%-98)	BNP Capital Markets
White Tunnel Finance(Jp)	425.2	Jan.2002	6	-	-	-	CCF
STERLING							
British Gas	250	Jul.2008	8.675	99.918R	8.805	+30 (5 1/4%-08)	S.Montagu/ Salomon
Marks and Spencer France	150	Dec.1996	7.375	99.88R	7.46	+25 (7 1/4%-98)	SG Warburg Securities
Guaranteed Export Fin. Corp.	500	Dec.1998	7.25	99.515R	7.375	+20 (7 1/4%-98)	Santander Montagu & Co.
Woodlark Building Society(Jp)	125	Jun.1997	6	99.73R	-	-	UBS
Unilever	100	Dec.1996	7.375	99.95R	7.400	+23 (7 1/4%-98)	BJ Intl/ SG Warburg
Bank of Greece	100	Jun.2003	9.75	99.88R	9.925	+175 (9 1/4%-03)	SG Warburg Securities
Treasury Corp. of Victoria	150	Jul.2003	8.75	99.91R	8.764	+82 (8 1/4%-03)	UBS
CANADIAN DOLLARS							
Abbey Nat. Treasury Services	150	Jul.1998	7.5	99.794R	7.551	+57 (5 1/4%-98)	BZW/ Wood Gundy

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
ITALIAN LIRA							
European Investment Bank	700m	Jul.1998	10.15	101.58	9.736	-	BCVBN/Credito Italiano
IMF Bank Ind.(Ceyman)(Jp)	150m	Jul.1998	11.125	102.125	10.556	-	IMF Bank Luxembourg
AUSTRALIAN DOLLARS							
RBI Bank Western Australia	100	Jul.2000	7.75	100.95	7.570	-	Hambros Bank
DANISH KRONER							
France for Danish Industry	300	Jul.1998	7.125	101.75	6.702	-	Unibank
SWEDISH KRONA							
Swedish Export Credit	500	Jul.1997	7.875	99.82R	7.929	-	Morgan Stanley Intl.
PESETAS							
Ordi Local de France(Jp)	100m	Jul.1998	10.4	101.31	10.054	-	Banesto
SWISS FRANCES							
Japan Transocean Corp.(Jp)	100	Jun.1997	1.125	100	-	-	Credit Suisse
Tokai Railway Co.(Jp)	200	Jun.1997	1	100	-	-	Swiss Bank Corp.
Shikoku Electric Ind.(Jp)	100	Jun.1997	0.875	100	-	-	Credit Suisse
Japan Fin. Corp. Mun. Ent.	150	Jul.2003	4.75	101	4.623	-	Swiss Bank Corp.
Union Industrielle de Credit	100	Jul.1999	5.125	101.75	4.783	-	Coutts & Co.
ABB International Finance	100	Jul.1996	6	100	-	-	SG Warburg Securities
Danish Telecom(Jp)	100	Jun.1997	0.875	100	-	-	Credit Suisse
Klema Construction Corp.(Jp)	150	Jun.1997	0.875	100	-	-	UBS
LUXEMBOURG FRANCES							
CFCMB(Jp)	10m	Jul.2001	7.375	101.35	7.148	-	BOEE
San Paolo, London Branch(Jp)	10m	Jul.2001	7.825	102.5	7.203	-	Cregem Int. Bank
CSFB Finance(Jp)	10m	Jul.2001	7.75	102.3	7.118	-	Kreditbank Int.Group

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Notice is hereby given that, pursuant to article 6 of the Terms and Conditions of the Bonds, the issuer has elected to redeem on 3rd August, 1983 at 100.25% of their nominal amount all the outstanding Bonds.

The redemption price of the Bonds, together with interest at 9.125% for the period from 7th January 1983 until the redemption date, will be payable on or after the Redemption Date upon presentation and surrender of the Bonds, together with all unremitted coupons attached, at the offices of the Paying Agents.

On and after the Redemption Date, interest on the Bonds will cease to accrue, and the coupon maturing after the Redemption Date will be void.

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Notice is hereby given that, pursuant to the paragraph "Terms and Conditions of the Notes", the issuer has elected to redeem at par on July 19, 1993 all of the outstanding Notes.

The Redemption Price of the Notes will be payable on or after the Redemption Date upon presentation and surrender of the Notes, together with all unremitted coupons attached, at the offices of the Paying Agents.

On and after the Redemption Date, interest on the Notes will cease to accrue, and all coupons maturing after the Redemption Date will be void.

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ITOCHU CORPORATION

To the Holders of the Bearer Depositary Receipts

Notice is hereby given that the 69th General Meeting of Shareholders of Itochu Corporation will be held at 10.00 a.m. on 29th June, 1993, at the Head Office of the company located at 1-3 Kyutaru-Machi, 4-Chome, Chuo-Ku, Osaka, Japan. Notice of convocations of the meeting is available at the Cashier's Counter, Hambros Bank Ltd., 4 Tower Hill, London EC3N 4HA, U.K. and Banque Internationale à Luxembourg S.A., 2 Boulevard Royal, Luxembourg.

Business Operations and Results for 1992/1993
Fiscal Year (ended 31st March, 1993)

Japan's economy during the period continued to contract, hindered by sluggish final demand. The year featured a low level of personal consumption, declining capital expenditures, a worsening employment environment, significant deterioration in corporate profitability and an expansion in the current balance of payments surplus. Given these factors, the Bank of Japan lowered the Official Discount Rate three times, finally reducing the Benchmark Rate on February 4th of this year to 2.5 per cent, a level not seen since the strong "V-shaped" recession between 1985 and 1987. In addition, in August of 1992 the Government announced "integrated economic countermeasures" which included total additional expenditures of 10.7 trillion Yen, and worked to pass the fiscal 1993 budget in record time. Moreover, the Yen-Dollar exchange rate reached a new historical high, appreciating from 133 Yen per Dollar at the beginning of the year to below 130 Yen per Dollar. The pace of the Yen's appreciation accelerated from the latter half of February of this year as new highs were renewed. Stock prices fluctuated widely, falling from the 18,000 Yen level on the Nikkei index to the 14,000 Yen level in August of last year, only to subsequently recover to the 18,000 Yen level.

Overseas, the U.S. economic recovery continued although some slowing was evident. In Europe, the recession in Germany lingered and employment conditions deteriorated. The mild first-half recovery seen in the French economy began to falter during the second half, and the United Kingdom's economy remained stagnant because of weak domestic demand. On the other hand, the NIES economies in Asia generally continued to expand favourably, although the pace of expansion showed evidence of slowing in the second half. The Asian economies continued to record high growth supported by exports within the Asian area and an inflow of direct overseas investments. In addition, while China's economy grew strongly driven by rapid expansion in domestic demand, there was increasing concern regarding mounting inflationary pressures as reflected in a steady increase in prices.

Given this business environment, Itochu strove to restructure its operations in an effort to reshape the organisation into a "globally integrated company" with a view toward the 21st Century. New areas and new businesses were aggressively promoted, and sound progress was made in strengthening our operating foundation.

Specifically, in preparation for the new multi-media era, we joined Toshiba Corp. in investing in Time Warner Entertainment Company L.P. in a tie-up with U.S.-based Time Warner Inc., the world's largest movie and publishing company. We also entered the visual media and information field in establishing Time Warner Entertainment Japan Co., Ltd. together with our partners. The company is making steady progress in long-term strategic investments in China, where economic development is progressing rapidly. We are participating in a number of cooperative ventures with major Chinese and foreign firms in the areas of sheet glass, corrugated cardboard and truck production. In addition, men's coats, women's wear and ski wear sewing companies have been established to expand product imports.

In the natural resource development field, stable supply sources of energy for Japan are being emphasised. Besides participating in the Vietnam Sea Oil Field Development Project, we have acquired an interest in the U.K. North Sea and in the Indonesia Sumatra Sea Oil Fields.

At the same time, we are trying to help resolve global environmental issues, working with Japan's major paper companies on reforestation projects in Brazil and Chile, and embarking on new reforestation projects in New Zealand and Australia.

Total transactions for the year declined by 7.4 per cent (1,483.5 billion Yen) to 16,529.3 billion Yen. Exports were firm, driven by favourable increases in plant exports to Asia. However, domestic transactions and imports decreased owing to a stagnant domestic economy. Moreover, a large drop was seen in overseas transactions as trading volume in precious metals fell sharply.

Gross trading profit fell 2.7 per cent (by 6.3 billion Yen) to 233.3 billion Yen owing to the stagnant business conditions that led to the decline in total transactions. This notwithstanding, ordinary profits grew 10.0 per cent (4.5 billion Yen) for the year to 49.8 billion Yen as falling interest rates boosted interest and dividend receipts, resulting in an improved non-operating balance. However, extraordinary losses were incurred as the result of the reorganisation and disposal of subsidiaries, and losses from the sale of marketable securities. Consequently, net income declined 7.1 per cent (700 million Yen) to 10.1 billion Yen.

Annual Report for the 1992/1993 Fiscal Year will be available at Hambros Bank Ltd. and Banque Internationale à Luxembourg S.A. by the end of July, 1993.



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ABI Global Equity	159.8	206.7	218.8	0.94
ABI Global Euro	164.2	188.1	174.5	2.34
ABI Global Far Eastern	102.0	102.0	109.1	2.74
ABI Global Japan	77.7	77.5	76.9	0.07
ABI Global Japan	77.7	178.4	168.8	0.07

AXA Equity & Law Bank Trust Mgrs (12000H)				
Equity & Law Fns, Corp & S, Geneva. 0055 55200				
Canalised Inc	432.3	424.0	451.1	2.48
Canalised Inc	432.3	465.2	464.0	4.00
UK Growth Acc	307.2	311.7	315.5	2.74
UK Growth Inc	317.7	291.9	293.3	2.74

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Test for dollar

FOREIGN exchange dealers will focus this week on data which will test whether the US is experiencing inflation at the current stage of the recovery, writes James Blitz.

In recent weeks there has been a growing belief that inflation is set to rise in the US, a phenomenon which would force the Federal Reserve to raise short term interest rates.

The PPI figure was a blip. After the onslaught that it has received in recent days, the near term outlook for the dollar against the yen will be affected by two sets of data this week.

Thursday brings the April trade balance for the US which is set to show another deficit. DKB International predicts that this will be in the order of \$8.5bn, following a deficit of \$10.2bn for March.

Even more important will be the Japanese trade balance for May. The yen rose strongly on the back of the April figure of \$10.2bn, because the US is so keen to see Tokyo's trade surplus reduced. A strong surplus this time might have a similar effect, pushing the yen towards the Y100 level against the dollar.

In Germany, the week's key data will be the M3 money supply figure for May, which is expected to show a slight dip. But the Bundesbank is unlikely to ease monetary policy at its council meeting on Thursday.

UK clearing bank base lending rate 5 per cent from January 28, 1993

Last Friday, the May producer prices figure US showed that the rate of inflation was far smaller than had been anticipated, with the ex-food and energy figure up 0.2 per cent on the month.

But the market will wait for the consumer price inflation figure for May, due out tomorrow, before giving its final verdict on US interest rates. The Michigan consumer confidence survey for June, which is due on Friday, will also show whether

POUND SPOT - FORWARD AGAINST THE POUND

Jan 11	Day's spread	Close	One month	%	Three months	%
US	1.5210-1.5200	1.5200-1.5200	0.38-0.38pm	2.75	1.02-0.98pm	2.54
Canada	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Switzerland	2.7700-2.7650	2.7650-2.7650	0.14-0.14pm	0.51	0.40-0.40pm	0.15
Germany	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
France	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Italy	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Spain	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Japan	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
South Africa	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Sweden	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Norway	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Denmark	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Belgium	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Netherlands	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Portugal	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Greece	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Finland	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Ireland	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Israel	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
South Korea	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
India	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
China	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Hong Kong	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Singapore	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Malaysia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Thailand	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Philippines	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Indonesia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Brunei	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Saudi Arabia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Oman	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
UAE	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Qatar	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Bahrain	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Kuwait	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Yemen	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Sri Lanka	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Maldives	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Myanmar	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Burma	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Laos	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Cambodia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Timor	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Vietnam	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Laos	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Cambodia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Timor	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Vietnam	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jan 11	Day's spread	Close	One month	%	Three months	%
UK	1.5210-1.5200	1.5200-1.5200	0.38-0.38pm	2.75	1.02-0.98pm	2.54
Canada	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Switzerland	2.7700-2.7650	2.7650-2.7650	0.14-0.14pm	0.51	0.40-0.40pm	0.15
Germany	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
France	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Italy	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Spain	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Japan	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
South Africa	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Sweden	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Norway	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Denmark	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Belgium	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Netherlands	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Portugal	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Greece	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Finland	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Ireland	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Israel	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
South Korea	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
India	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
China	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Hong Kong	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Singapore	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Malaysia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Thailand	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Philippines	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Indonesia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Brunei	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Saudi Arabia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Oman	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
UAE	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Qatar	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Bahrain	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Kuwait	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Yemen	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Sri Lanka	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Maldives	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Myanmar	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Burma	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Laos	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Cambodia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Timor	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Vietnam	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Laos	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Cambodia	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Timor	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08
Vietnam	1.9200-1.9150	1.9150-1.9150	0.27-0.27pm	1.41	0.80-0.80pm	1.08

EXCHANGE CROSS RATES

	Jan 11	E	S	DM	Yen	FF	Sfr	HK	TL	CS	B	PL	Esc
US	1	1.596	2.476	165	8.323	2.210	0.775	226a	1.983	51.0	109a	1.66	
Canada	0.655	0.927	1.522	106.0	5.454	1.748	1.174	1479	1.380	33.42	84.2	1.05	
Switzerland	0.400	0.617	1.030	68.0	3.648	1.210	0.810	1020	0.910	22.16	55.16	0.71	
Germany	0.980	1.432	1.620	110.0	57.44	13.68	11.73	1439	12.07	116.2	174.7	7.837	
France	1.201	1.853	2.043	139.4	16	2.665	3.326	2711	2.547	81.29	227.2	1.52	
Italy	1.201	1.853	2.043	139.4	16	2.665	3.326	2711	2.547	81.29	227.2	1.52	
Spain	1.201	1.853	2.043	139.4	16	2.665	3.326	2711	2.547	81.29	227.2	1.52	
Japan	0.500	0.550	0.582	53.1	2.988	0.78	1	1131.0	18.23	69.3	108.8	0.67	
South Africa	0.400	0.576	0.607	71.72	3.050	0.850	0.600	1080	0.856	22.61	84.4	1.05	
Sweden	0.400	0.576	0.607	71.72	3.050	0.850	0.600	1080	0.856	22.61	84.4	1.05	
Norway	0.400	0.576	0.607	71.72	3.050	0.850	0.600	1080	0.856	22.61	84.4	1.05	
Denmark	1.891	2.982	3.693	17.32	4.333	4.441	4.424	1499	3.900	100.37	248.4	2.04	
Belgium	0.789	1.240	1.553	127.7	5.559	1.74	2.180	1701	1.541	40.25	146.6	1	
Finland	0.789	1.240	1.553	127.7	5.559	1.74	2.180	1701	1.541	40.25	146.6	1	
Yen per 100 US	100.00	French Fr	100.00	100.00	100.00	Bolspfr Fr	100.00	100.00	Peseta per 100	100.00	100.00	100.00	100.00

FINANCIAL TIMES MONDAY JUNE 14 1993

INVESTMENT TRUSTS - Con[illegible]

100

[illegible]

4 PM close June 17

Continued on next page

**GET
COPIES**

NASDAQ NATIONAL MARKET

F 5th					F 5th					F 5th					F 5th				
Rank	Score	Rate	Rate	Rate	Rank	Score	Rate	Rate	Rate	Rank	Score	Rate	Rate	Rate	Rank	Score	Rate	Rate	Rate
1	23	23	23	23	1	23	23	23	23	1	23	23	23	23	1	23	23	23	23
2	24	24	24	24	2	24	24	24	24	2	24	24	24	24	2	24	24	24	24
3	25	25	25	25	3	25	25	25	25	3	25	25	25	25	3	25	25	25	25
4	26	26	26	26	4	26	26	26	26	4	26	26	26	26	4	26	26	26	26
5	27	27	27	27	5	27	27	27	27	5	27	27	27	27	5	27	27	27	27
6	28	28	28	28	6	28	28	28	28	6	28	28	28	28	6	28	28	28	28
7	29	29	29	29	7	29	29	29	29	7	29	29	29	29	7	29	29	29	29
8	30	30	30	30	8	30	30	30	30	8	30	30	30	30	8	30	30	30	30
9	31	31	31	31	9	31	31	31	31	9	31	31	31	31	9	31	31	31	31
10	32	32	32	32	10	32	32	32	32	10	32	32	32	32	10	32	32	32	32
11	33	33	33	33	11	33	33	33	33	11	33	33	33	33	11	33	33	33	33
12	34	34	34	34	12	34	34	34	34	12	34	34	34	34	12	34	34	34	34
13	35	35	35	35	13	35	35	35	35	13	35	35	35	35	13	35	35	35	35
14	36	36	36	36	14	36	36	36	36	14	36	36	36	36	14	36	36	36	36
15	37	37	37	37	15	37	37	37	37	15	37	37	37	37	15	37	37	37	37
16	38	38	38	38	16	38	38	38	38	16	38	38	38	38	16	38	38	38	38
17	39	39	39	39	17	39	39	39	39	17	39	39	39	39	17	39	39	39	39
18	40	40	40	40	18	40	40	40	40	18	40	40	40	40	18	40	40	40	40
19	41	41	41	41	19	41	41	41	41	19	41	41	41	41	19	41	41	41	41
20	42	42	42	42	20	42	42	42	42	20	42	42	42	42	20	42	42	42	42
21	43	43	43	43	21	43	43	43	43	21	43	43	43	43	21	43	43	43	43
22	44	44	44	44	22	44	44	44	44	22	44	44	44	44	22	44	44	44	44
23	45	45	45	45	23	45	45	45	45	23	45	45	45	45	23	45	45	45	45
24	46	46	46	46	24	46	46	46	46	24	46	46	46	46	24	46	46	46	46
25	47	47	47	47	25	47	47	47	47	25	47	47	47	47	25	47	47	47	47
26	48	48	48	48	26	48	48	48	48	26	48	48	48	48	26	48	48	48	48
27	49	49	49	49	27	49	49	49	49	27	49	49	49	49	27	49	49	49	49</

AMEX COMPOSITE PRICES

- H -												
22	240	9	9	9	+4	Mid Penn	0.24	28	15	154	+4	
23	240	9	9	9	+4	Mira Sun	0.68	18	12	104	95	
24	240	9	9	9	+4	Newsweek	0.24	28	15	154	+4	
25	240	9	9	9	+4	NEC	0.4212	67	40	474	243	
26	240	9	9	9	+4	Norfolk	18	674	24	243	243	
27	240	9	9	9	+4	Norfolk Gen	15	687	94	9	94	
28	240	9	9	9	+4	Novartis	7	1632	24	24	24	
29	240	9	9	9	+4	Norwegian	36	15	6	6	6	
30	240	9	9	9	+4	Norwegian	36	15	6	6	6	
31	240	9	9	9	+4	Norwegian	36	15	6	6	6	
32	240	9	9	9	+4	Norwegian	36	15	6	6	6	
33	240	9	9	9	+4	Norwegian	36	15	6	6	6	
34	240	9	9	9	+4	Norwegian	36	15	6	6	6	
35	240	9	9	9	+4	Norwegian	36	15	6	6	6	
36	240	9	9	9	+4	Norwegian	36	15	6	6	6	
37	240	9	9	9	+4	Norwegian	36	15	6	6	6	
38	240	9	9	9	+4	Norwegian	36	15	6	6	6	
39	240	9	9	9	+4	Norwegian	36	15	6	6	6	
40	240	9	9	9	+4	Norwegian	36	15	6	6	6	
41	240	9	9	9	+4	Norwegian	36	15	6	6	6	
42	240	9	9	9	+4	Norwegian	36	15	6	6	6	
43	240	9	9	9	+4	Norwegian	36	15	6	6	6	
44	240	9	9	9	+4	Norwegian	36	15	6	6	6	
45	240	9	9	9	+4	Norwegian	36	15	6	6	6	
46	240	9	9	9	+4	Norwegian	36	15	6	6	6	
47	240	9	9	9	+4	Norwegian	36	15	6	6	6	
48	240	9	9	9	+4	Norwegian	36	15	6	6	6	
49	240	9	9	9	+4	Norwegian	36	15	6	6	6	
50	240	9	9	9	+4	Norwegian	36	15	6	6	6	
51	240	9	9	9	+4	Norwegian	36	15	6	6	6	
52	240	9	9	9	+4	Norwegian	36	15	6	6	6	
53	240	9	9	9	+4	Norwegian	36	15	6	6	6	
54	240	9	9	9	+4	Norwegian	36	15	6	6	6	
55	240	9	9	9	+4	Norwegian	36	15	6	6	6	
56	240	9	9	9	+4	Norwegian	36	15	6	6	6	
57	240	9	9	9	+4	Norwegian	36	15	6	6	6	
58	240	9	9	9	+4	Norwegian	36	15	6	6	6	
59	240	9	9	9	+4	Norwegian	36	15	6	6	6	
60	240	9	9	9	+4	Norwegian	36	15	6	6	6	
61	240	9	9	9	+4	Norwegian	36	15	6	6	6	
62	240	9	9	9	+4	Norwegian	36	15	6	6	6	
63	240	9	9	9	+4	Norwegian	36	15	6	6	6	
64	240	9	9	9	+4	Norwegian	36	15	6	6	6	
65	240	9	9	9	+4	Norwegian	36	15	6	6	6	
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FINANCIAL TIMES
 ...er battle ends with something for everyone

Barrier battle ends with

MONDAY INTERVIEW

Apostle of low inflation

Donald Brash, governor of the Reserve Bank of New Zealand, speaks to Kevin Brown

Mr Donald Brash, governor of the Reserve Bank of New Zealand, is rare among central bankers: he has also been an active politician. He might have been appointed finance minister in the present conservative government had he not been deprived of a safe parliamentary seat by a by-election protest vote 12 years ago.

Yet it is hard to see how he could have had more impact on New Zealand from the Beehive, the government building, than he now has from the governor's office across the road.

In four and a half years as governor, he has presided over a fall in the rate of inflation from 9 per cent to 1 per cent. More important, the consensus among economists is that price stability can be maintained, extraneous shocks aside.

Government ministers, from the present prime minister down, praise Mr Brash's skills highly in private, and even Mr Mike Moore, the Labour opposition leader, says he has great admiration for Mr Brash's handling of monetary policy.

Interviewed in his spartan office, Mr Brash is keen to talk about New Zealand's victory over inflation, but modest about his own role.

Softly spoken and reticent, he is flattered by overseas interest, if a little surprised at the form some of the praise has taken. With a laugh, he refuses to comment on the suggestion by Samuel Brittan of the FT that he should have been appointed governor of the Bank of England.

Mr Brash does not claim sole credit for transforming New Zealand's inflation prospects. Radical labour market deregulation and fiscal prudence by the conservative National party government have helped to reduce inflationary pressures.

He is also becoming something of an apostle for New Zealand's innovative Reserve Bank Act, passed with cross-party support by the former Labour government in 1990, which put ultimate responsibility for fighting inflation in the governor's lap.

Mr Brash will be evangelising on the benefits of central bank independence in London this Thursday in a speech to the European Policy Forum, the free-market think-tank.

He will resist the temptation to present the New Zealand

model as a complete solution to the UK's inflation problems. But his elucidation of the act's "elegant constitutional structure" will add weight to those, such as the combative Mrs Ruth Richardson, New Zealand's finance minister, who believe it would transplant relatively easily to the UK.

The act marked a watershed for New Zealand, which had suffered double-digit inflation for most of the 20 years since 1970, with the exception of an artificial fall during a prices freeze in 1983-84.

Supporters claim the act achieves a compromise between the relative subservience of Threadneedle Street to the UK government and the independence of the US Federal Reserve and Germany's Bundesbank.

As with the Bundesbank, the Reserve Bank of New Zealand has total independence in the operation of monetary and exchange rate policy, subject to the provision that its sole objective is to achieve and maintain price stability.

But the act leaves the definition of price stability to the government, which sets a target range for inflation in the form of a personal contract with the governor, usually for a fixed five-year term.

The government can amend the contract, by fiat or by negotiation, but any change must be made formally and publicly, ensuring that monetary policy is always transparent. The government can also fire the governor if he fails to achieve the target but, contrary to popular belief, his salary is not directly linked to inflation performance.

The act has made Mr Brash a symbol of New Zealand's commitment to low inflation, and no one was surprised when Mrs Richardson announced nine months early that he would be reappointed for five years from this September. His contract will require inflation to be maintained at 0.5 per cent - effectively a continuation of the existing contract, which required him to reduce inflation to 0.2 per cent between 1990 and September 1993.

The government's role in choosing the governor means the bank is only as independent as its leader. It would be possible, concedes Mr Brash, for a government to relax its anti-inflationary stance, for example, by appointing a compliant governor or by pressing



The Reserve Bank Act 'is a very useful bulwark'

an incumbent hoping for reappointment to accept a renegotiation of the target.

But he argues that the openness of the system, combined with the disciplines imposed by the financial markets, make it unlikely that any government would take the risk. "It is obviously important to have someone in the post who strongly believes in price stability, but the framework does make it more difficult to derive the essentially short-term benefits

scientists from the International Monetary Fund. No other economy has been as savagely restructured as ours."

Perhaps surprisingly, Mr Brash hints that the initial target may indeed have been too rigorous. It was "very narrow", he admits, it left little leeway for forecasting errors.

He also concedes that the bank made mistakes in manipulating the "crude steering device" of monetary policy, particularly during the trough of the New Zealand recession in 1991, when inflation fell faster than expected.

But he rejects the suggestion that the bank contributed to the depth or length of the recession, arguing that the long-term benefits of rapid disinflation greatly outweigh the short-term pain.

"New Zealand has incurred all sorts of costs through being late into the disinflation game, but one of the advantages was that we were able to learn lessons from what had been done elsewhere," he says.

"For example, in many of the countries where disinflation has been achieved, wage settlements have not been moderated, so that when the foot came off the monetary brake inflation took off again."

The bank's most significant achievement, he says, has been a change in inflationary expectations. "One of the most important things that has happened is that, regardless of whether people agree with the policy, they know that the Reserve Bank is going to keep pursuing it."

Selling this message is becoming easier as New Zealand consolidates what appears to be a sustainable economic recovery. Growth in GDP reached 3 per cent in the 12 months to December, and is widely forecast to be 2.5 to 3 per cent for the next two years.

PERSONAL FILE

1940 Born, Wanganui. Educated Canterbury University, NZ; PhD, Australian National University.

1967 World Bank, Washington. 1971 Chief executive, Broadbank.

1981 National party parliamentary candidate. 1982 Chief executive, NZ Kiwifruit Authority.

1986 Chief executive, Trust Bank.

1988 Governor, Reserve Bank.

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The pension bomb ticks unnoticed



MICHAEL PROWSE on AMERICA

If President Bill Clinton were truly a "new democrat" he would launch a national debate about the future of the federal government's largest programme - social security (pensions and disabled). The point would not be to tamper with the benefits of existing retirees but to ask whether the promises made to current workers make sense or, indeed, can be honoured.

In just over a decade, the huge "baby boom" generation (people born between 1945 and 1965) will start retiring. Over time, this will put enormous pressure on the federal budget. On official estimates, the number of social security beneficiaries per 100 insured workers will shoot up from 81 today to about 50 in 2030 and, on pessimistic assumptions, to perhaps as many as 80 by 2070.

If US social security were an austere "safety net" scheme, the demographic pressures might be manageable. It is not. Broadly speaking, the US is in the position of Britain in the early 1980s before the Thatcher government savagely pruned the state earnings-related pension scheme (Serps). In contrast with the basic British pension, which rises in line with inflation, retiring Americans receive a generous federal pension based on their average lifetime earnings; once the pension payments begin they are indexed for inflation. This year, retiring single-earner couples will get federal pensions of up to \$20,000.

So long as the ratio of pensioners to workers is stable, pension liabilities rise at roughly the same pace as average earnings. But, if the ratio of pensioners to workers shoots up, as it will when baby boomers retire, the system is threatened with insolvency. Social security taxes are currently about 12.6 per cent of payroll earnings. Federal actuaries reckon that pension payments will rise from 11.6 per cent of earnings today to about 18 per cent late in the 21st century. On more pessimistic, yet plausible, assumptions, the ratio could rise to 27 per cent.

If the far shakier trust fund

covering medical benefits is included, the figures look much worse: total benefit payments rise to 31 per cent of payroll or a mind-boggling 62 per cent on pessimistic assumptions. In other words, on unchanged policies present social security promises could require anything from a 50 per cent increase to a near quadrupling of payroll taxes on the working population.

When Mr Clinton is grappling with so many more immediate problems, including healthcare reform, it may seem perverse to expect him to bother about long-term demographic trends. After reforms in 1983, social security is expected to generate surpluses for at least the next decade. But letting the 21st century take care of itself is highly irresponsible. The trouble with pensions is that you have to give plenty of warning. It is no use waiting until 2010 and then telling 65-year-old baby-boomers that the nation can no longer honour its commitments. If future pensioners are to be scaled back, baby-boomers must be told today so as to have a chance of increasing their private savings.

There are two main steps that could be taken to reduce future pension liabilities. The link with earnings could be broken or greatly watered down. Payroll taxes would then rise much faster than pension benefits, compensating for the decline in the worker-pension ratio. The retirement age could also be increased beyond 67 to, say, 72 to reflect past and prospective improvements in life expectancy. But, rather than simply

watering down the present scheme, it would make sense to consider radical alternatives. The threat of higher taxes on future workers arises mainly from the difficulty within a public scheme of one generation funding its own pensions. The \$500bn social security surplus generated last year was only notionally "invested" in US government securities. In reality, it was spent just like any other government receipt. When the social security fund's claims fall due in 2030 years, the Treasury can honour them only by raising taxes or increasing borrowing.

There will always be a strong case for a federal safety-net pension, to keep the elderly out of poverty. But there is no economic reason why the federal government should be raising huge sums in payroll taxes (more than \$400bn last year) to be recycled as earnings-related pensions. If Mr Clinton were bold, he would suggest instead that payroll taxes be sharply cut and individuals be required to invest the cash released in portable private pension schemes of their own choice. Baby-boomers' pensions would then depend on the performance of their equity portfolios, which in turn would depend on the economy's strength. Current workers would no longer face steadily rising payroll taxes.

The political advantages of replacing social security (for future retirees) with mandated contributions to private schemes would be legion. Mr Clinton could claim to have cut taxes sharply, increased personal responsibility, headed off the future insolvency of social security, given the financial services industry a boost and, in all probability, sharply increased the national savings rate. He would be the savviest new Democrat in town.

The depressing reality, of course, is that no American politician (Democrat nor Republican) has the courage even to begin such a debate. Social security is regarded as untouchable, whether or not the rules make sense.

Question mark over Nato

The writing is on the wall, it says: "Too bad about Bosnia."

All doubt has disappeared. The west has now conclusively advertised its refusal to do anything effective about the tragic war in Bosnia. In a last, minimalist gesture, the United Nations voted 10 days ago to authorise the use of troops to defend Sarajevo and five other towns as "safe havens" for the Moslems. Last week, Nato foreign ministers duly endorsed the new UN plan. Only one thing was missing - any willingness to provide the minimum number of 5,000 extra troops needed to carry it out.

In preference, Nato governments agreed on a three-point strategy which signalled clearly that they have virtually written off this bloody conflict. First, Nato aircraft will patrol the skies. In theory, this is to protect UN troops in the safe havens but, in reality, air strikes cannot substitute for inadequate troops because they are as likely to kill civilians as Serb soldiers. Second, the US will make the cost-free gesture of sending a little company of 300 soldiers to Macedonia, where there is no fighting, as a symbolic deterrent to any wider ambitions by the Serbs. And third, Nato will hold a special summit meeting towards the end of the year to try to work out how to do better in future.

In plain English, Nato's three-point strategy can be summed up in three words: gesticulation, containment, obfuscation.

Each of these elements is understandable in its own terms. The trouble is that,



IAN DAVIDSON on EUROPE

cumulatively, they are deeply damaging for the west - never mind the terrible sufferings of the people of Bosnia. They are damaging to the political and moral authority of the west, damaging to relations between Europe and the US, and damaging to the credibility of Nato. This damage will not be put right by yet another summit.

The ostensible purpose of the meeting is to plan for Nato's future. The real purpose is to try to patch up the transatlantic rift exposed by the war in Bosnia. The Clinton administration will hope to impress the Europeans with the president's leadership and commitment to the alliance. But the war in Bosnia has demonstrated a profound divide in strategic interests between Europe and the US, and it will not be erased by any summit communiqué. From the US point of view, there may be very good reasons for not wanting to get involved in a small civil war on the southern fringe of Europe. But the US's critical mass is such that its refusal has hobbled the rest of the alliance.

Of course, it is unreasonable to lay all the blame on the US. From the beginning of the

Yugoslav crisis, European governments repeatedly advertised their reluctance to use military force, thus renouncing the option of intimidating the warring parties. But US reluctance further undermined the military option for Europe.

As it is, France and Britain are by far the biggest contributors of troops to the UN humanitarian protection force in Bosnia. But a shift from humanitarian protection to the active use of military force would require a large increase in troop strengths, which could come only through the mobilisation of resources across the breadth of the alliance. Thus, the US refusal virtually amounted to a veto.

After this, there must now be a serious question mark over Nato's future. Nato has lost its original unifying *raison d'être* with the disintegration of the massive military threat from the Soviet Union, though it is possible that the political turmoil in Russia may again confront the west with a serious military threat. Meanwhile, all alliance governments, including the French, want to keep Nato going; at the Rome Summit of 1991, they drafted a new strategy for peace, based on dialogue and co-operation between east and west.

Unfortunately, they skirted round the central probability - that the most immediate threats to the stability and security of Europe would be likely to come from smaller and less predictable regional conflicts. The war in Bosnia is only one of several conflicts detonated by the break-up of the Soviet bloc. Others include the war in Georgia and that

between Armenia and Azerbaijan. The new Nato strategy recommends "crisis management" and "conflict prevention"; but it does not say how these admirable functions would be carried out by an essentially military alliance like Nato. That uncertainty has been made more acute by the war in Bosnia, because it has revealed profound differences in strategic appreciation between Europe and America.

The Bosnian war, and the west's inability to stop it by force, provide the motivation behind the French proposal for a "pact for security and stability in Europe", put forward by Mr Edouard Balladur, the French prime minister. The French objective is to prevent a repetition of the Yugoslav tragedy, by some sort of collective management of potential conflicts over frontiers and ethnic minorities. Exactly how these conflicts are to be defused is far from clear. But the French seem to envisage some sort of diplomatic-security negotiation conducted by the European Community.

The first problem is that ethnic conflicts are liable to being driven by blind emotion. As in Bosnia, they may not be susceptible to rational negotiation by outsiders. The second problem is that the French scheme will need to be very ambitious if it is to measure up to the two most serious crises in the former Soviet Union: Russia's claim to a right to intervene in neighbouring states; and the potential for conflict in the tension between Russia and Ukraine over Ukrainian territory, Ukrainian nuclear weapons, and even Ukrainian independence.

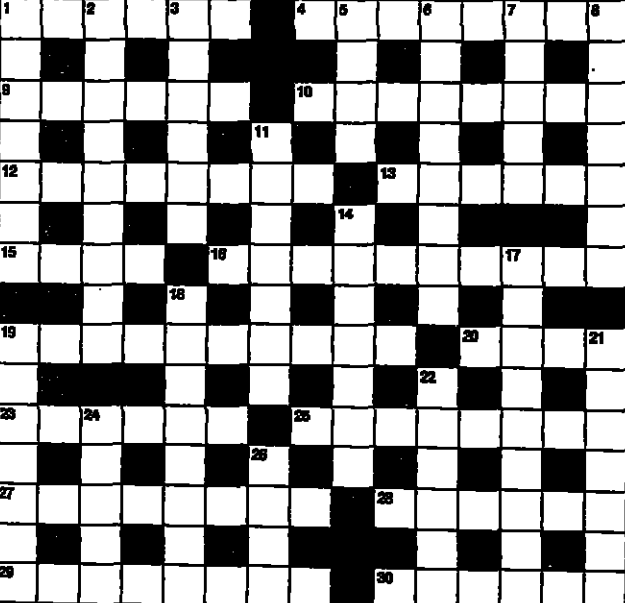
The Pelikan's beak savours Saville Row labels, And he doodles on damask at the best of tables.

Pelikan

JOTTER PAD

CROSSWORD

No.8,175 Set by DANTE



- ACROSS**
- 1 An intriguing design? (6)
 - 4 Wild cat's leap subdues (8)
 - 9 Not related (6)
 - 10 Rock opera first produced by a worker (8)
 - 12 Worrying hobby? (8)
 - 13 Soldiers give up and fall back (6)
 - 15 Little creatures among those left standing (4)
 - 16 Six hours' time to pay (7,3)
 - 19 Give 50% rebate on ticket? (6,4)
 - 20 Divine Egyptian currency in Oxford (4)
 - 23 Putting spirit into a severe beating (6)
 - 25 Stimulating prison group (8)
 - 27 Shaken and upset (6)
 - 28 They're not profitable for companies to make (6)
 - 29 Score but two (8)
 - 30 Wizard flier (6)
- DOWN**
- 1 Give another order to pack and shift position (7)
 - 2 Native S. African provides a warning drink about ten (9)
 - 3 One must support the law to some degree in this African state (6)
 - 5 Rounds of drinks? (4)
 - 6 Rounded up but not rounded off (8)
 - 7 Cut of the cloth? (5)
 - 8 Church gloomy about witchcraft (7)
 - 11 Vessels among the waves perhaps (7)
 - 14 Churchman about to put plate out (7)
 - 17 Sad about girl losing her head, getting the sack (3)
 - 18 Indisposed star can't perform (6)
 - 19 Free delivery (7)
 - 21 Nominally commits oneself to work? (5,2)
 - 22 Go over undulating track (6)
 - 24 Many fish act like limpets (5)
 - 26 Present her with a key (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 26.

BUILDING OF A HOTEL FOR A MAJOR AIRPORT

Aeroporti di Roma S.p.A., the Company in charge of Rome's airport network, hereby announces its intention to offer to a subcontractor the direct management, including the design and construction, of a new first class (four-star, by Italian standards) hotel complex indicatively of 400 (four hundred) rooms, to be situated in the centre of Leonardo da Vinci International Airport at Fiumicino, Rome.

Aeroporti di Roma reserves the right to select the most suitable candidates among the companies expressing an interest in this project.

Any hotel chains that may be interested should apply in writing, enclosing a general profile of their company and making specific reference to any hotels of at least four-star category, operated under a single registered name with international acclaim. These should be no fewer than 15 (fifteen) in number, and should have at least 250 (two hundred and fifty) rooms.

All applications, which shall in no way be legally binding on Aeroporti di Roma, should reach the following address at the latest by 10.00 hours on July 15, 1993:

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Via dell'Aeroporto di Fiumicino
00050 Fiumicino Aeroporto
(Fax 396/65953950)

The Managing Director
(Alberto Morandi)

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